

Agenda – Finance Committee

Meeting Venue:	For further information contact:
Committee Room 3 – Senedd	Bethan Davies
Meeting date: Thursday, 3 November 2016	Committee Clerk 0300 200 6372
Meeting time: 09.00	SeneddFinance@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

2 Paper(s) to note

(09.00)

(Pages 1 – 6)

Additional evidence from the Law Society – Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill

(Pages 7 – 10)

Consultation responses: Dialogue – Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill

(Pages 11 – 16)

Additional evidence from the Land Registry – Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill

(Pages 17 – 28)

Additional evidence from CLA Cymru – Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill

(Pages 29 – 30)

Additional evidence from the Scottish Government – Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill

(Pages 31 – 37)

3 Wales Audit Office and the Auditor General for Wales estimate of income and expenses: Evidence session

(09.00–10.00)

(Pages 38 – 313)



Huw Vaughan Thomas – Auditor General for Wales
Isobel Garner – Chair, Wales Audit Office
Kevin Thomas – Director of Corporate Services
Steven O’Donoghue – Director of Finance

Paper 1 – Wales Audit Office – Estimate of income and expenses 2017–18

Paper 2 – The Wales Audit Office and Auditor General for Wales’ Annual Report and Accounts 2015–16

Paper 3 – Wales Audit Office– Final Audit Findings Report Year Ended 31 March 2016

Paper 4 – Wales Audit Office Annual Plan 2016–17 – Including additional information on our three–year strategy and priorities

Paper 5 – Wales Audit Office – Interim Report – An assessment of progress made against our 2016–17 Annual Plan during the period 1 April to 30 September 2016

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

(10.00)

Items 5, 9 and 10.

5 Wales Audit Office and the Auditor General for Wales estimate of income and expenses: Consideration of evidence

(10.00–10.15)

6 Welsh Government Draft Budget 2017–18: Evidence session 2

(10.15–11.15)

(Pages 314 – 353)

Natasha Davies, Policy Partner, Chwarae Teg
Anne Meikle, Head of WWF Cymru

Paper 6 - WWF Cymru – written evidence

Paper 7 - Chwarae Teg – written evidence

Paper 8 – Letter from the Future Generations Commissioner

11.15–11.30 Break

7 Welsh Government Draft Budget 2017–18: Evidence session 3

(11.30–12.45)

(Pages 354 – 384)

Vanessa Young, Director of the Welsh NHS Confederation

Gary Doherty, Chief Executive, Betsi Cadwaladr University Health Board
(representing all NHS Wales Chief Executives)

Eifion Williams, Director of Finance, Abertawe Bro Morgannwg University Health Board (representing NHS Wales Directors of Finance)

Steve Webster, Director of Finance /Deputy Chief Executive Officer, Cwm Taf University Health Board

Paper 9 – Welsh NHS Confederation – written evidence

12.45 – 13.30 Lunch

8 Land Transaction Tax and Anti-avoidance of Devolved Taxes

(Wales) Bill: Ministerial evidence session

(13.30–15.00)

(Pages 385 – 403)

Mark Drakeford AM, Cabinet Secretary for Finance and Local Government

Andrew Hewitt, Policy Manager, Welsh Government

Gareth McMahon, Government Lawyer, Welsh Government

9 Land Transaction Tax and Anti-avoidance of Devolved Taxes

(Wales) Bill: Consideration of evidence

(15.00–15.30)

(Pages 404 – 411)

Paper 10 – Key issues

10 Welsh Government Draft Budget 2017–18: Consideration of evidence

(15.30–16.00)

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Thursday, 13 October
2016

Meeting time: 09.01 – 14.34

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3892>

Attendance

Category	Names
Assembly Members:	Simon Thomas AM (Chair) Mike Hedges AM Eluned Morgan AM David Rees AM Steffan Lewis AM Nick Ramsay AM Mark Reckless AM
Witnesses:	Andrew Evans, Chartered Institute of Taxation Kate Willis, Chartered Institute of Taxation Mark Hayward, National Association of Estate Agents Douglas Haig, Residential Landlord Association Kay Powell, The Law Society Nigel Popplewell, Burges Salmon LLP Angharad Woodland, The Woodland Davies Partnership LLP David Morgan, Royal Institution of Chartered Surveyors Wales



	<p>Geraint Evans, Royal Institution of Chartered Surveyors</p> <p>Frank Haskew, Institute of Chartered Accountants in England and Wales</p> <p>Martin Warren, Institute of Chartered Accountants in England and Wales</p> <p>Adam Thomas, Geldards LLP</p> <p>David Jervis, Eversheds</p> <p>Jonathan Evans, Deloitte LLP</p>
Committee Staff:	<p>Bethan Davies (Clerk)</p> <p>Catherine Hunt (Second Clerk)</p> <p>Georgina Owen (Deputy Clerk)</p> <p>Lakshmi Narain – Technical Adviser</p> <p>Martin Jennings (Researcher)</p> <p>Christian Tipples (Researcher)</p> <p>Joanest Varney-Jackson (Legal Adviser)</p>

Transcript

[View the meeting transcript](#)

1 Assembly Commission Draft Budget 2017–18: Consideration of the Committee report

1.1 The Committee agreed the report with minor amendments.

2 Introductions, apologies, substitutions and declarations of interest

2.1 The Chair welcomed members to the meeting.

3 Paper(s) to note

3.1 The paper was noted.

3.1 FIN(5)–08–16 PTN1 Letter from HMRC to the Chair – 07 October 2016

4 Land Transaction Tax and Anti–avoidance of Devolved Taxes (Wales) Bill: Evidence session with Chartered Institute of Taxation

4.1 The Committee took evidence from the Chartered Institute of Taxation.

5 Land Transaction Tax and Anti–avoidance of Devolved Taxes (Wales) Bill: Evidence session with the National Association of Estate Agents and Residential Landlords Association

5.1 The Committee took evidence from the National Association of Estate Agents and Residential Landlords Association

6 Land Transaction Tax and Anti–avoidance of Devolved Taxes (Wales) Bill: Evidence session with the Law Society

6.1 The Committee took evidence from the Law Society.

6.2 Nigel Popplewell agreed to share the Law Society’s synopsis of the number of TAARs in England and Wales with the Committee.

**7 Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales)
Bill: Evidence session with the Royal Institution of Chartered Surveyors
and Institute of Chartered Accountants in England and Wales**

7.1 The Committee took evidence from the Royal Institution of Chartered Surveyors and the Institute of Chartered Accountants in England and Wales.

**8 Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales)
Bill: Evidence session with Geldards LLP, Eversheds and Deloitte**

8.1 The Committee took evidence from Geldards LLP, Eversheds and Deloitte.

**9 Motion under Standing Order 17.42 to resolve to exclude the public
from the remainder of the meeting**

9.1 The motion was agreed.

**10 Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales)
Bill: Consideration of Evidence**

10.1 The Committee considered the evidence received.

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 4 – Tŷ Hywel

Meeting date: Wednesday, 19 October
2016

Meeting time: 09.00 – 10.34

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3761>

Attendance

Category	Names
Assembly Members:	Simon Thomas AM (Chair) Mike Hedges AM Eluned Morgan AM Steffan Lewis AM Nick Ramsay AM Mark Reckless AM Lee Waters AM
Witnesses:	Mark Drakeford AM, Cabinet Secretary for Finance and Local Government Margaret Davies, Welsh Government Andrew Jeffreys, Welsh Government
Committee Staff:	Bethan Davies (Clerk) Catherine Hunt (Second Clerk) Georgina Owen (Deputy Clerk) Martin Jennings (Researcher) Christian Tipples (Researcher)



	Joanest Varney–Jackson (Legal Adviser)
	Lakshmi Narain (Technical Advisor)

1 Introductions, apologies, substitutions and declarations of interest

1.1 Apologies were received from David Rees AM.

1.2 The Chair welcomed Lee Waters AM who attended as a substitute for David Rees AM.

2 Paper(s) to note

2.1 There were no papers to note.

3 Welsh Government Draft Budget 2017–18: Evidence session 1

3.1 The Committee took evidence from Mark Drakeford AM, Cabinet Secretary for Finance and Local Government; Margaret Davies, Deputy Director – Strategic Budgeting, Welsh Government; and Andrew Jeffreys, Director – Treasury, Welsh Government.

3.2 The Cabinet Secretary agreed to provide a note on the level of borrowing or debt supported by the Welsh Government.

TAAR

What is the name of the relief?	Where is the relief found for SDLT?	Where is the relief found in the LTT Bill?	Does the SDLT relief contain a TAAR?	Does the LTT TAAR cover this relief?
Relief for notional transactions associated with assignments of rights and relief for certain subsales	Schedule 2A, Finance Act 2003	18(2), 19(2) and 19(3) of Schedule 2	Yes (paragraph 18, schedule 2A, Finance Act 2003)	Yes
Sale and Leaseback relief	Section 57A of Finance Act 2003	Paragraph 1 of Schedule 8	No	Yes
Relief for certain alternative property finance transactions	section 71A and 73 Finance Act 2003	Paragraphs 2 and 3 of Schedule 9	No	Yes
Relief for certain transactions relating to alternative finance investment bonds	Section 123 and Schedule 61 of the Finance Act 2009	Paragraphs 13(1) and 15(1) of Schedule 10	Yes (paragraph 22, Schedule 61 Finance Act 2009)	Yes
Relief for incorporation of limited liability partnership	Section 65 Finance Act 2003	Paragraph 1 of Schedule 11	No	Yes
Relief for certain acquisitions of dwellings	Schedule 6A Finance Act 2003	Paragraphs 2(1), 2(3), 3(1), 3(4), 4(1), 4(4), 5(1), 5(3), 6(1), 6(4), 7(1) and 7(4) of Schedule 13	No	Yes

Relief for transactions entered into by persons exercising collective rights	Section 74 Finance Act 2003	Paragraph 10 of Schedule 13	No	Yes
Shared Ownership Leases: relief for certain reversions	Section 70 and Schedule 9 of Finance Act 2003	Paragraph 4 of Schedule 14	No	Yes
Shared Ownership Leases: relief for certain staircasing transactions	Section 70 and Schedule 9 of Finance Act 2003	Paragraph 6(2) of Schedule 14	No	Yes
Shared Ownership Trust Relief: transfer upon termination	Section 70 and Schedule 9 of Finance Act 2003	Paragraph 13 of Schedule 14	No	Yes
Shared Ownership Trusts: relief for certain staircasing transactions	Section 70 and Schedule 9 of Finance Act 2003	Paragraph 14 of Schedule 14	No	Yes
Relief relating to contingent consideration in the case of a right to buy transaction	Section 70 and Schedule 9 of Finance Act 2003	Paragraph 2 of Schedule 14	No	Yes
Shared Ownership Leases: election for consideration to be taken to be market value	Section 70 and Schedule 9 of Finance Act 2003	Paragraph 3 of Schedule 14	No	Yes

Shared Ownership Leases where staircasing allowed: election for consideration to be market value	Section 70 and Schedule 9 of Finance Act 2003	Paragraph 5 of Schedule 14	No	Yes
Shared Ownership Trusts: election for consideration to be market value	Section 70 and Schedule 9 of Finance Act 2003	Paragraph 12 of Schedule 14	No	Yes
Relief for certain acquisitions by social housing providers	Section 71 of Finance Act 2003	Paragraph 19(1) of Schedule 14	No	Yes
Group Relief	Section 62 and Schedule 7 of Finance Act 2003	Paragraph 2(1) of Schedule 15	Yes (Paragraph 2(4A), Schedule 7 of the Finance Act 2003)	Yes
Reconstruction Relief	Section 62 and Schedule 7 of Finance Act 2003	Paragraph 2(1) of Schedule 16	Yes (paragraph 7(5) Schedule 7, Finance Act 2003)	Yes
Charities Relief	Section 68 and Schedule 8 of Finance Act 2003	Paragraphs 3(1), 5(1), 6 and 8 of Schedule 17	Yes (paragraph 1(3) Schedule 8 Finance Act 2003)	Yes
Open-ended investment companies relief	Section 102 Finance Act 2003 and the Stamp Duty Land Tax (Open-ended Investment Companies) Regulations 2008	Paragraphs 1(1) and 2(1) of Schedule 18	No	Yes
Relief for acquisitions by public bodies and health bodies	Sections 66 and 67A Finance Act 2003	Paragraphs 1(1) and 2 of Schedule 19	No	Yes

Compulsory purchase relief and planning obligation relief	Sections 60 and 61 Finance Act 2003	Paragraphs 1(1) and 2(1) of Schedule 20	No	Yes
Relief for acquisitions involving multiple dwellings	Section 58D and Schedule 6B of the Finance Act 2003	Schedule 12	No	Yes
Acquisition Relief	Section 62 and Schedule 7 of the Finance Act 2003	Schedule 16	Yes (Paragraph 8(5B), Schedule 7 to the Finance Act 2003)	Yes

Finance Committee – Dialogue Responses

Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill

Below are the ideas submitted, by the public, in relation to the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill. Ideas are unedited and include comments posted by other Dialogue users.

The Dialogue challenge opened on 16 September and closed on 21 October.

Relief

by Charlotte

To allow Roll Over relief for Land Tax, for example, should you sell the property that was purchased within a period of say 5 years and re-invest in another property you could qualify for relief of the Land Tax already paid but you would have to pay the increase due should the following transaction incur a higher rate of Land Tax.

In addition I would suggest a level of relief for first time buyers.

Why the contribution is important?

This may encourage first time buyers and movement in the sales market.

Comments from other Dialogue users:

this idea wouldn't help first time buyers, but would massively help property developers and speculative purchasers. Why should there be a protection for those who have the means to reinvest in more expensive properties, surely



the fairest way would be to assist those with the least i.e. first time buyers because without them the whole market slows up.

Amount of Land Tax

by Charlotte

I would suggest that the Land tax charged would be at a similar rate if not at a lower rate than that charged in England.

Why the contribution is important?

Surely retaining investment in Wales would be of advantage to our Country. By increasing our levels of Land Tax my view is that it would discourage investment in Wales.

Comments from other Dialogue users:

Very few purchasers (other than those living in the border towns) make a choice of buying in Wales or England, so pegging the tax to the rates charged in England would have little effect. If I want to buy a house in Cardiff I would factor in the % of land tax for Wales, the fact that it may be slightly cheaper or cost more in England isn't suddenly going to make me more or less likely to purchase in Wales, I'll buy where I need to live and where my family is based.

End land tax

by tiggy

How about having no tax on buying or selling property? This might make it easier for owners and buyers to sell and buy their homes, or businesses, and help make the market more liquid. Taxes could be collected in diverse other ways that are more attractive and rewarding for the owners, such as when



registering ownership details, or when validating sustainability/eco-efficiency values, etcetera.

Why the contribution is important?

It potentially takes some of the financial strain out of the initial purchasing and selling process. There are potentially a number of ways of raising tax revenue that spread the overall costs over a period of time and enable checks and balances to be introduced which alleviate hardship for poorer people, whilst imposing more responsibility on better off people. Both domestic and business property transactions could be changed.

Comments from other Dialogue users:

sorry but I don't agree with your idea to abolish to land tax, this is a long held principle and should be maintained. It is right to tax the sale of land and buildings and is a more equitable means of raising revenue than VAT that penalises those on the lowest incomes.

Stamp duty payable by the seller, not the buyer

by [penartharbyd](#)

For every property sale transaction there are two parties: buyer and seller. That means that a *roughly* equal amount of tax would be taken if stamp duty were to be shifted from the buyer to the seller. I say 'roughly' because the effect of transferring the tax would mean that instead of there being every incentive for the seller to inflate the price of the property – they don't pay the tax currently – there might be slight downward pressure on prices because as the sale price increases so does the tax burden for the person who is benefitting from the sale price. I don't think that would have a huge impact on house prices but then I'm not a property economist.

This shift in tax burden would have an immediate impact on the housing market, because **struggling** first time buyers by definition would have no tax to pay. And while there may be some very wealthy first time buyers who



would benefit inordinately, they would be in the tiny minority. Most first time buyers purchase houses of modest price. This would also avoid at least one of the problems associated with government support schemes, principally that taxpayers' money (in some form) is being used simply to inflate the market and create windfall house price increases for those already owning property.

So that's the plus point from the buyers' end of the market. How about the sellers' end? Well, let's imagine that upon your death your house (if you own one) is sold. As part of your estate, solicitors dealing with your affairs will simply take the tax from the value in the estate. And if your estate is in the negative then the tax comes pretty high on the debtors' list. The main snag of this idea as far as I can tell is that if someone purchased well beyond their means and died suddenly, leaving an estate massively in debt, then the Welsh Government could struggle to get that tax revenue. Would the tax impact of that eventuality be counteracted by the activity associated with the increased ability of first time buyers to enter the market? Possibly.

Another advantage of this plan is that it would be a way of redistributing the tax burden from those of middle income (or capital) to the families of those of high income (capital) because stamp duty would be paid by the estate of people with enormous, highly valued houses (for example), who currently pay nothing. Is there an issue with selling a house to pay for the care of elderly relatives, and the tax being an additional burden on families with these caring responsibilities? Again, possibly. But as time goes by those families will themselves have benefited from not paying stamp duty on their first purchase.

In terms of timing, the move would be instant so the tax take wouldn't take the hit. Some people would benefit from the change taking place on a particular date, but as long as the date were announced with a year or so's notice that shouldn't be too problematic. It would mean a rush for sellers eager to complete a transaction before the cut-off date with an equivalent resistance from buyers.

I said earlier on that it could be a way to *increase* the tax take. And this is a further benefit of the idea. Because it's the vendor, not the purchaser, who



would pay stamp duty under this proposal, and the vendor has an asset (house), tax can be levied on any sale price. A 1% tax on someone selling a £100,000 house should cause less problems than for someone trying to buy that house. The obvious exception is if you've gone and ended up in negative equity, but it's difficult to cater for people who think that house prices can only ever increase. Who knows, perhaps this revision of the tax would be a means of making people treat house purchase with a little more sobriety.

There's one more point about this plan. Someone's bound to say that house prices will equalise in any case and the purchase price for first time buyers will just increase as more competition for available housing arises. My answer to that is that perhaps that's a possibility – but at least then the increased tax is paid by the vendor, not the first-time buyer.

And if you don't own a house, well all this is going to pass you by. As long as the tax take increases – or at least stays the same – you'll be happy in the knowledge that you're not subsidising the housebuying circus.

Cross-border issues? Someone sells a house in England, paying no tax, and buys one in Wales, paying no tax. The reverse is true for someone *leaving* Wales and buying in England. The revenue to the Welsh exchequer remains the same, as does the revenue to the English exchequer. The individuals involved are the ones to gain/lose. It potentially incentivises movement from England to Wales (especially at the high end of the market) and stifles movement in the reverse direction (especially at the lower end). The Committee will want to consider the magnitude of this effect, its significance, and if significant its desirability.

Why the contribution is important?

As above.

Reduces tax burden to nil on first-time buyers (which therefore makes it a progressive tax), increases housing market activity (particularly at the lower end), revenue neutral (or thereabouts).



2nd property rates

by [Susannacosgrove](#)

The higher rates for second properties will need to be in line with England.

Why the contribution is important?

If the higher rate for second properties you run the risk of a high influx of BTL investors snapping up Welsh properties, making the market more difficult for first time buyers

Seller Stamp Duty

by [DaveKing](#)

I think stamp duty should only be paid on the net increase in property value.

Why the contribution is important?

This would increase supply of property on the market and help the labour force be more mobile as the cost of downsizing or moving to a similar home would be reduced. I would hope that the increase in transactions might offset the fall in stamp duty per purchase.

Reduced Fees for Welsh Speakers

by [chris272](#)

A reduced land tax for those that speak welsh to encourage greater take up of the language

Why the contribution is important?

more welshy speakers





Cross Border Title Report

WELSH BORDER DATA ANALYSIS

Summary of figures:

- 1093 titles straddle the border to various extents, due to genuine registrations or capture tolerances;
- **485 titles** straddle the border or exist in both England and Wales, significantly enough to exclude mapping or scale issues. Out of these:
 - 442 titles are freehold, 33 titles are leasehold and 10 titles are either cautions, rentcharges or unclassified (pending titles);
 - 136 titles are residential, 47 titles are commercial, 32 titles are mixed use and the remaining are either general land registration, water, mines and minerals or other interests on land;
 - 130 titles had a total of 141 transactions lodged against them (transfers, new leases and first registrations) in the last 5 financial years;
- 27.45% of the border length is identified as unregistered (not straddled nor adjoined by titles in the Welsh side) but, due to capturing methods or to titles being close to the border, significant limitations exist in the analysis.
- All spatial analysis was carried out using Index Polygons obtained from the NPD (July 16). Index Polygons are described [here](#).

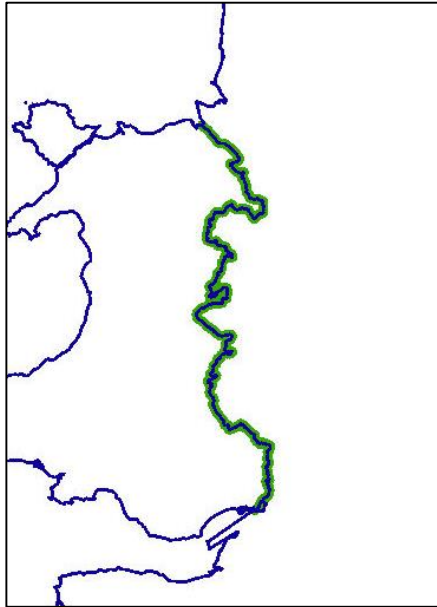
Report structure:

- Spatial analysis:
 - Border analysis;
 - Buffer analysis;
- Data analysis:
 - Tenure;
 - Property types;
 - Transactions;
- Unregistered land.

SPATIAL ANALYSIS

Border analysis

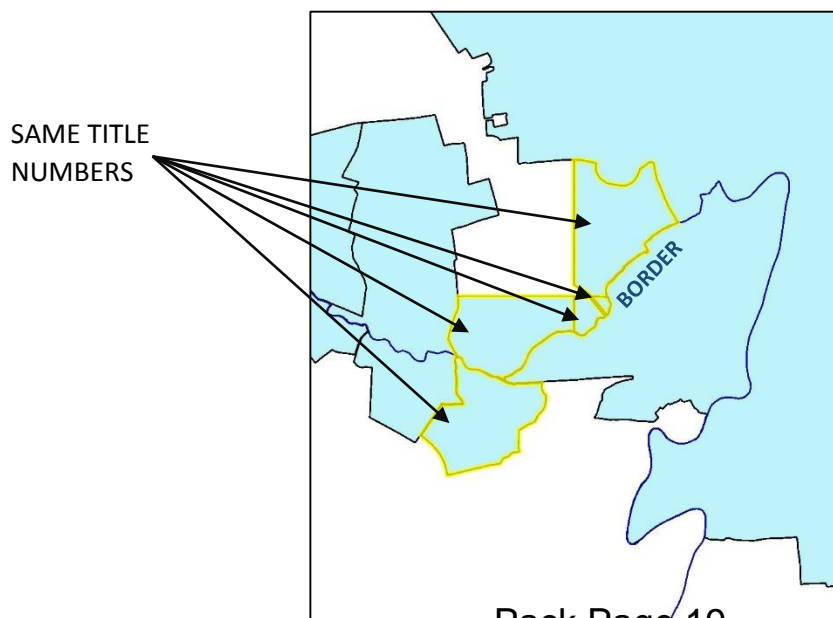
Administrative boundaries are mapped by the Ordnance Survey and delivered through the [Boundary-Line dataset](#). The country's dataset was reduced to the Wales-England border on which the analysis was performed.



The geographic distribution and the extent of titles were obtained from the [National Polygon Dataset](#) (extracted in July 2016). The spatial query to detect index polygons crossed by the border revealed a number of different situations.

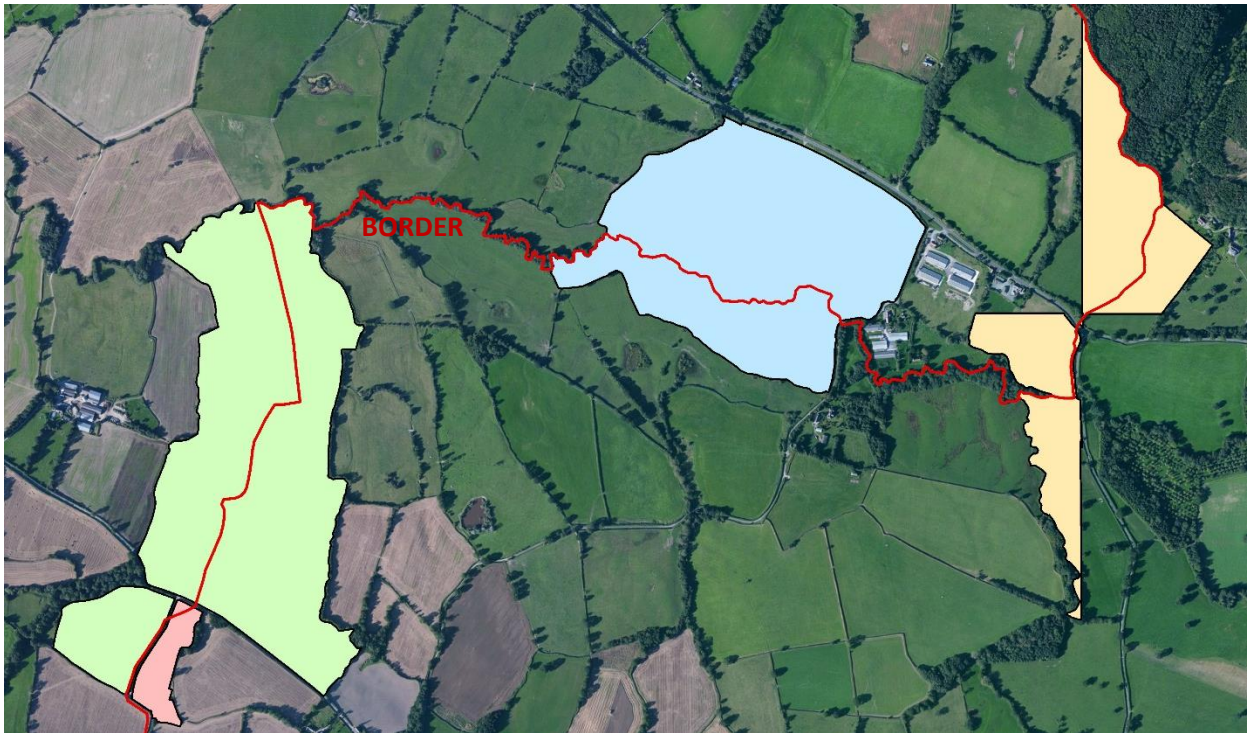
An initial total of **1382 polygons** was selected. These straddle the border to various extents and include duplicate entries for title numbers, due to multiple index polygons associated with them.

The polygons with duplicate TNs were aggregated into single entries and the dataset was eventually reduced to a more meaningful total of **1093 unique titles**.



All these titles straddle the border in the geographic representation but many of them do so to a very limited extent and/or due to limitations in the capture methods. Accordingly, a manual selection was carried out to further reduce the dataset. This was based on the interpretation of the actual relationship between the border and the index polygons and only those that significantly straddle the border were retained. This exercise has reduced the list to **463 titles**.

Example of titles straddling the border (RETAINED)



Example of titles adjoining or just crossing the border (EXCLUDED)



An additional query was run to find titles whose index polygons do not straddle the border but rather are split between England and Wales. **22 titles** were found. These were then added to the previous total of 463, to give a definitive list of cross border titles where a high level of confidence is given, amounting to **485 titles**.

Examples of titles split between England and Wales (RETAINED)



Buffer analysis

A second strand of the analysis was carried out to identify, in the list of 608 excluded titles (1093 - 485), those with a more meaningful relationship with the border. A buffer strip of an arbitrary 1 metre was created on each side of the border and all the polygons that exceeded it were retained. In this case, the final list would count a further **467 titles**, in addition to the previous 485 titles, hence a total of **952 titles**.

Examples of titles retained after the buffer analysis



DATA ANALYSIS

Tenure

Following are the statistics on tenure for the three most significant datasets previously produced, namely the lists of 485 and 952 titles. The classification is extracted from the Register.

	High Level (485 titles)	Mixed (952 titles)
Title Class		
Freehold	442	886
Leasehold	33	46
Caution	6	12
Rentcharge	1	1
Unclassified	3	7
Estate Interest		
Estate in land	475	929
Profit a prendre	9	22
Rentcharge	1	1

Property types

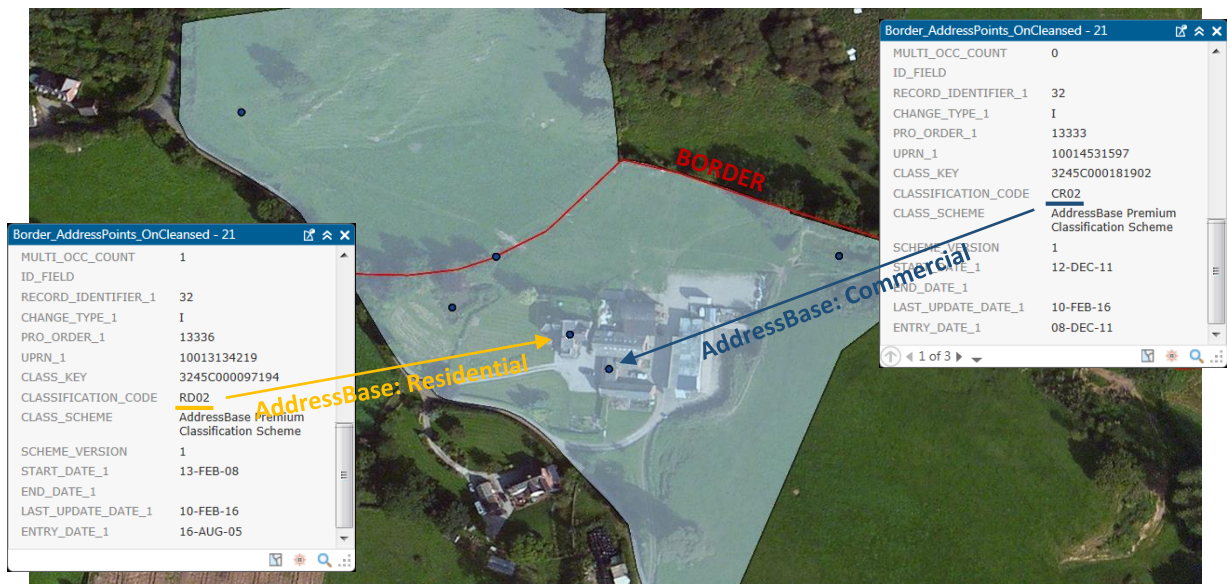
The following figures were produced by bringing together information from [AddressBase](#) (Ordnance Survey's addressing product which includes the classification of delivery addresses), the Register and the Mapping System. Some level of interpretation was required where no clear distinction could be made, since the Register does not provide any definition of residential or commercial. For instance, a common case is when a farm, with or without an associated residential address, falls within agricultural land and the Mapping System confirms that they are registered under the same title. Some clarifications were obtained from the B Register, in which the proprietor's address matching the property's address suggests the presence of a residential property. General land is here defined as property that do not include, in any part of its extension, either a residential or a commercial property, but it can be agricultural land used for commercial purposes or woodland.

This analysis was limited to the 485 titles that positively straddle the border (but it could be extended to the whole dataset if there is value in doing so). The titles were classified as Residential, Commercial, Residential/Commercial (Mixed Use), Land (General), Water, Mines and Minerals and Other interests (Profits a prendre, Cautions and Rentcharges).

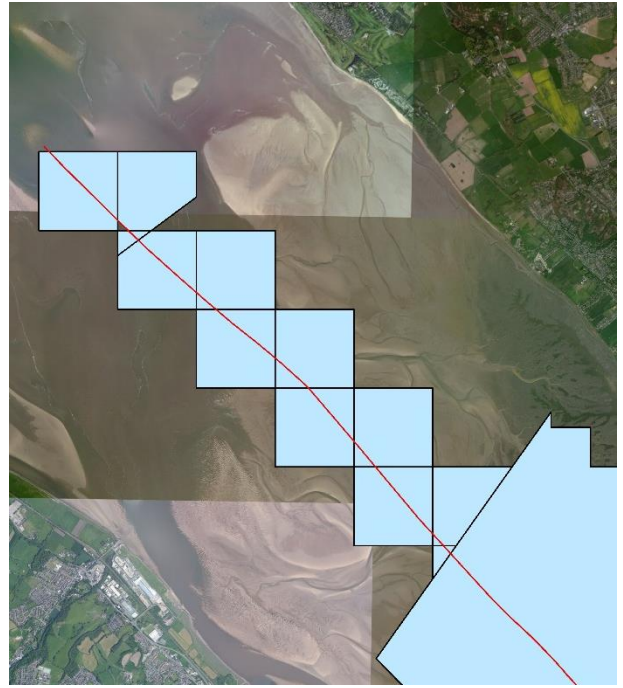
Types	Number of titles
Residential	136
Commercial	47
Residential / Commercial (Mixed Use)	32
Land (General)	219
Water	32
Mines and Minerals	3
Other interests	16

Following this analysis, the identified water titles could possibly be filtered out of the list, leaving a total of **453 titles**.

Example of a mixed use title mapped across different information systems



Examples of water titles in the Severn (left) and the Dee (right)



Transactions

Transfers (Value and No Value), New Leases and First Registrations were considered for the last 5 financial years only, starting from 01 April 2011. Applications that were initially lodged before this date, but whose mark off dates are logged after 01 April 2011, are included. The maximum number of transactions that any title had in this period of time was 3, with a few having 2 and most of them having just 1.

		High Level (485 titles)	Mixed (952 titles)
Total number of transactions		141	282
Transfers		69	135
	Value	45	99
	No Value	24	36
First Registrations		61	134
New Leases		11	13
Number of titles affected at least once		130	264
	Titles with 3 transactions	2	2
	Titles with 2 transactions	7	14

Unregistered Land Analysis

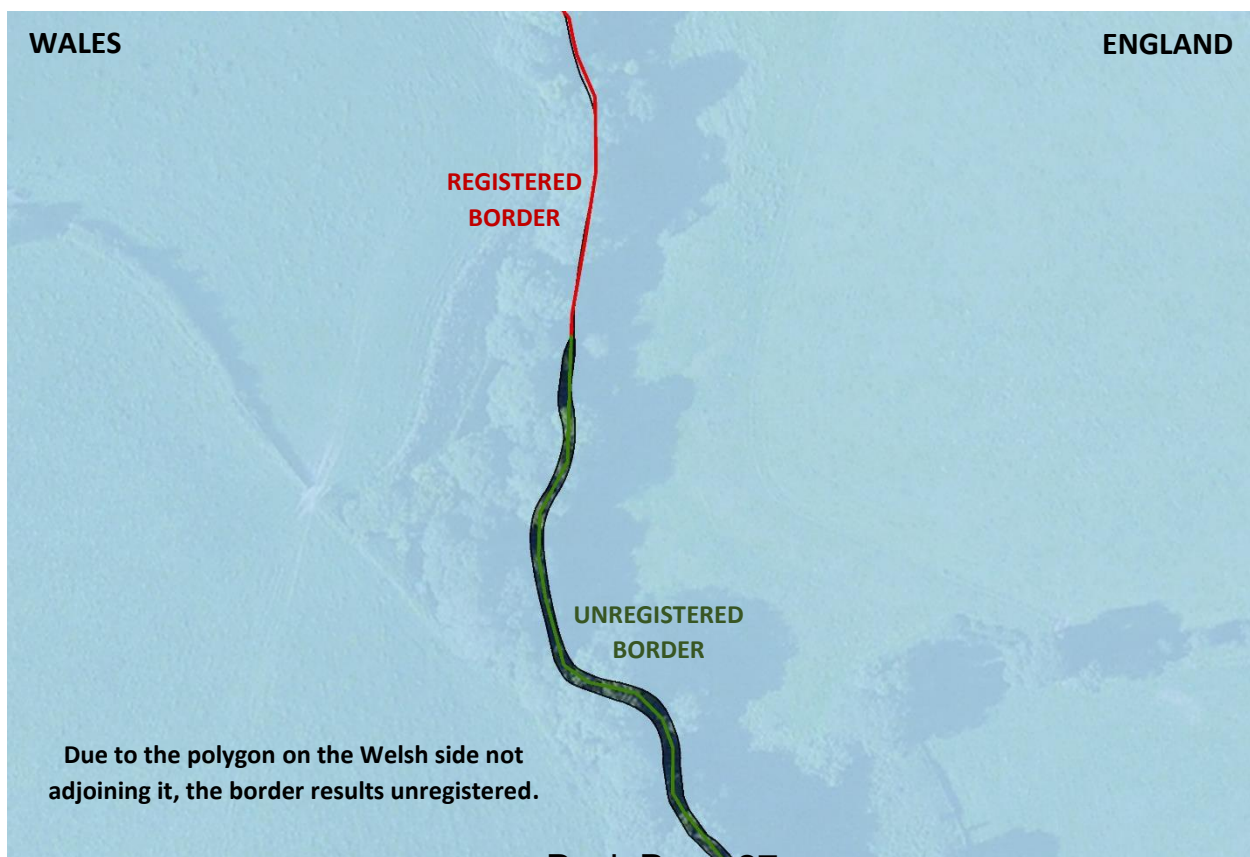
In order to find a figure for unregistered land along the border, an approach similar to the previous was adopted. Situations like unregistered roads and rivers crossing the border or very large unregistered portions of land make it difficult to determine exactly the extent of unregistered area. Although an arbitrary area buffer could be created on the border (10m? 50m? 500m?), it was instead chosen to measure the length of “unregistered border”: this was defined as the segments of the border where no title (or, more precisely, no index polygon) touches nor straddles it on the Welsh side. In this case, no difference was made between adjoining and straddling unregistered land.

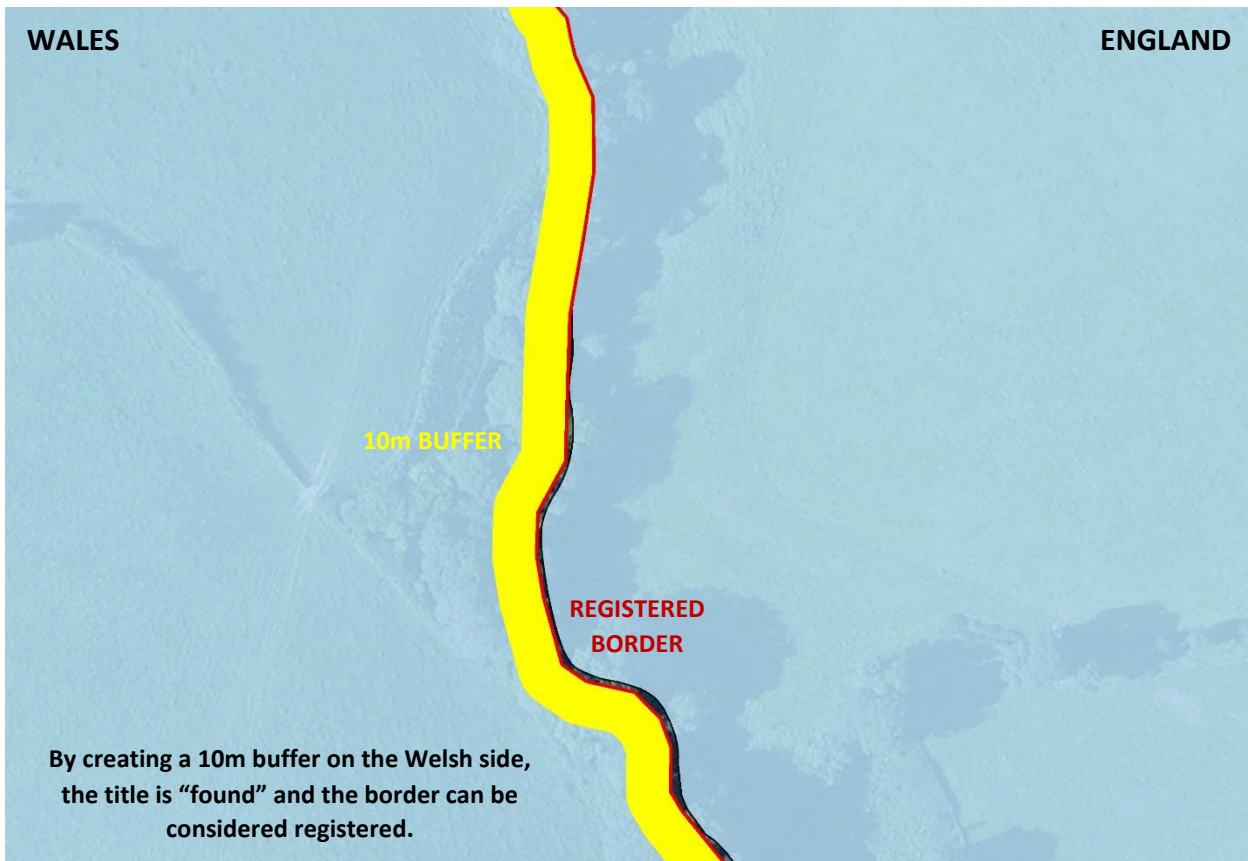
The first measure showed a total of about 35% of unregistered border. Although large bits of genuine unregistered land along the border do exist, a number of caveats must be considered:

1. On a significant number of cases, the border follows unregistered river courses but land is actually registered just up to the riverbank;
2. Due to capturing tolerances, index polygons are often mapped with a narrow strip of land between them and the border but they are actually meant to go up to the border;
3. Again, due to capturing tolerances and as seen before, index polygons in England can straddle to Wales when they are not meant to, distorting the final value;
4. Capturing methods do not agree with each other, therefore the way the Ordnance Survey has vectorised the border does not follow the same rules as the mapping of index polygons by LR;

These issues were partially accounted for by creating a buffer of 10 metres along the border and considering registered the bits where a segment of land could be found within this range. This is not a definitive solution, especially due to the arbitrary nature of the 10m buffer. As things stand, the figure is still a questionable **27.45% of unregistered border**.

Example of solving an issue with a buffer







Simon Thomas AM
Chair, Welsh Assembly Finance Committee
Y Senedd
Cardiff Bay
CF99 1NA

21 October 2016

Dear Mr Thomas

Re: Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Bill

In our written evidence submitted to the Finance Committee and in giving oral evidence on 29 September, we have suggested that agricultural tenancies should be excluded from Land Transaction Tax (LTT). In our view this would be a major simplification for those advising on agricultural tenancies, and will reduce the compliance costs for the parties concerned whilst having little impact on the revenue raising potential of LTT.

We were asked by the Chair of the Committee to consider how this would be formulated. We have taken the opportunity to discuss and agree how this can be achieved with the National Union of Farmers and the Central Association of Agricultural Valuers.

To exempt agricultural tenancies from Land Transaction Tax we recommend that this could be achieved by amending Schedule 3 of the Bill and inserting the following new paragraph 7 (with a consequential renumbering of the paragraph giving power to add, remove or vary exemptions):

- “(1) A land transaction is exempt from charge if it is the grant, surrender or assignment of an agricultural tenancy.
- (2) In this paragraph, “agricultural tenancy” means a tenancy made in accordance with either:
 - (a) an agricultural holding within the meaning of the Agricultural Holdings Act 1986, or
 - (b) a farm business tenancy within the meaning of the Agricultural Tenancies Act 1995.”

We trust that the Committee will feel able to recommend the inclusion of an exemption for agricultural tenancies.

We were also asked to consider the differences between the current Targeted Anti-Avoidance Rule (TAAR) provisions for Stamp Duty Land Tax and the TAAR proposed in the Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Bill. We are not in a position to comment on any differences because as an organisation that provides an advisory service to members, we do not get called upon to advise on whether the SDLT

.../cont.

TAAR applies. We would reiterate the comments in our written evidence on the need for clear guidance as to the terms used. In particular, the TAAR in the bill applies only to the reliefs from LTT. It defines in clause 31(3) a tax avoidance arrangement as including one where obtaining a tax advantage is the main or one of the main purposes and there is a lack of genuine economic or commercial substance. As a self-assessed tax, taxpayers and their advisers need to have certainty as to whether they can claim reliefs without subsequently facing a challenge by the Welsh Revenue Authority under this TAAR. Surely the whole purpose of the statutory reliefs is to meet the required policy objective to give a tax advantage in those specified circumstance? What is meant by a lack of “genuine or economic or commercial substance”? Guidance should clearly address these issues and specify the circumstances where the TAAR will apply.

Yours sincerely

A handwritten signature in black ink that reads "Louise Speke". The signature is written in a cursive, slightly slanted style.

Louise Speke
Chief Taxation Adviser

T: 0131 244 7282
E: directoroffinancialstrategy@gov.scot

Simon Thomas AM
Chair
Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

October 2016

Dear Mr Thomas

Thank you for your letter of 4 October 2016 following my evidence to the Finance Committee on 29 September. I am glad that you found that session helpful and am happy to provide the Committee with the further information requested.

Provision of Land and Buildings Transaction Tax (LBTT) reliefs

Sub-sale Development Relief

Sub-sales arrangements are not uncommon in the Scottish property market. This is the case throughout the UK. “Sub-sales” involve an intermediary – often a developer – buying a parcel of land from a landowner and immediately selling on some of that land to other developers while retaining the remainder for their own purposes. Taxing both sets of purchases - which would involve two tax charges being paid on the same pieces of land although the transactions were near-simultaneous – was seen as unduly onerous. Consequently, a form of sub-sale relief has been available under UK Stamp Duty Land Tax (“SDLT”) since 2003. This was provided on a “self-service” basis, so that developers simply calculated the value of the relief and deducted it from their tax calculation. However the relief came to be seen by HMRC and some commentators as providing a tax avoidance loophole. In 2013, HMRC amended the SDLT legislative provisions that provided this relief so that taxpayers wishing to use the relief were obliged to claim it explicitly, and to provide details. The aim was to reduce opportunities for tax avoidance.

The LBTT (Scotland) Act 2013 was enacted without any form of sub-sale relief. The then Cabinet Secretary for Finance, Employment and Sustainable Growth indicated at Stage 3 of the LBTT Bill that in his view the corresponding SDLT relief had been a significant source of tax avoidance. He also indicated that a similar relief in respect of LBTT would only be considered in circumstances where significant *development* of the land or buildings which were the subject of the sub-sale was in prospect, and if it could be shown that the risks of tax avoidance could be satisfactorily mitigated.

Following enactment of the Bill, the Scottish Government convened a consultative group involving representatives of property development interests, property lawyers and taxation professionals, and also undertook a public consultation exercise to seek views. After reflecting on input from the group and the consultation, Ministers decided to introduce a new targeted sub-sale development relief, through secondary legislation. The Land and Buildings Transaction Tax (Sub-sale Development Relief and Multiple Dwellings Relief) (Scotland) Order 2015 was approved by Parliament in March 2015. This Order and the 2013 Act both commenced on 1 April 2015. The relief is available to the 'first buyer' in a land transaction involving sub-sale arrangements where significant development is in prospect. The relief has been targeted in such a way so as to reduce, as far as practical, the opportunities for tax avoidance. If significant development does not take place within five years of the purchase, the relief is withdrawn or partially withdrawn. The principle is that, for the relief to be retained once claimed, significant development activity must take place on the land in question within a period of 5 years. The provisions are similar to other mechanisms in LBTT legislation which allow for the withdrawal of a relief.

Multiple Dwellings Relief and Acquisition Relief

Schedule 5 to the LBTT (Scotland) Act 2013 provides for relief in the case of certain land transactions involving a purchase of multiple dwellings. To encourage investment in the private rented sector, relief is provided based on the calculation of the average price of each dwelling being acquired (applying residential rates of tax to each one), rather than charging the higher rates of tax on the full aggregate purchase price of the multiple dwellings. Scottish Ministers can also set a minimum prescribed proportion (MPP) of tax due prior to the relief which must be paid, so that the amount of relief is effectively capped. The Scottish Government consulted on a MPP¹ of 40% (footnote 1 below provides further background information) but after reflecting on stakeholder responses set a MPP of 25%.

The rationale for setting the MPP at 25% cent is that, at that time, under SDLT where the average price per dwelling acquired fell in the nil rate band, a tax 'floor' was set at 1% of the whole purchase price of the dwellings. If the chargeable consideration for the transaction as a whole exceeded £1 million then, in the absence of multiple dwellings relief, tax would be charged at a rate of 4%. As 1% as a proportion of 4% is 25%, then 25% was argued (by LBTT stakeholders) to be a comparable prescribed proportion for the relief under LBTT. The Scottish Government considered that 25 per cent represented the best balance between the public interest in securing tax receipts, and ensuring multiple dwellings relief operates to support the private rented sector when larger numbers of properties are being purchased.

Acquisition relief applies where a land transaction is entered into for the purposes of, or in connection with, the transfer of an undertaking, or part of an undertaking, by a company. In order to qualify for this relief, the consideration paid for the land transaction must be non-redeemable shares and certain other qualifying conditions must be met, as set out in schedule 11 of the LBTT (Scotland) Act 2013. The aim of the relief is to reduce the tax charge on transfers of ownership of land and property between companies where the company itself is being acquired by another. The tax is reduced to a proportion of what would have been charged but for the relief. The Scottish Ministers have the power to set this proportion. The Scottish Government consulted on a prescribed proportion for acquisition relief of 15% of the tax that would be payable but for the relief (see footnote 1 below for further details) but after reflecting on stakeholder feedback settled on a prescribed proportion of 12.5%.

¹ <http://www.scotland.gov.uk/Resource/0044/00449463.pdf> (see pages 7 to 15 & 18-20)

The rationale for setting the prescribed proportion at 12.5% was that this would preserve comparability for commercial planning purposes with the relief available, at that time, under SDLT. Under SDLT, the tax charged when this relief was claimed was 0.5% of the chargeable consideration. If the chargeable consideration exceeded £1 million, tax would otherwise have been charged at 4%. Stakeholders argued that as 0.5% as a proportion of 4% is 12.5%, then 12.5% would be a comparable prescribed proportion for the relief under LBTT. The Scottish Government agreed with this.

The Scottish Government does not actively assess the impact of differences in reliefs/exemptions between the LBTT regime in Scotland and the SDLT regime which currently applies in the rest of the UK. The Scottish Government does however keep the position on LBTT reliefs and exemptions under review as part of the ongoing programme of devolved tax planning and management.

LBTT – notification of chargeable transactions

A land transaction is the acquisition of a chargeable interest and is notifiable to Revenue Scotland, unless the transaction is exempt or if the chargeable consideration is less than £40,000. As you note, the position under the LBTT regime is broadly the same as under SDLT. The Scottish Government considers it is important that where a 100% relief is claimed, a tax return should nevertheless be submitted (unless the transaction itself is exempt). This provides important financial data regarding relief levels and also assists Revenue Scotland in exercising its compliance function.

LBTT Guidance for Taxpayers and Agents

Revenue Scotland in its capacity as the tax authority with responsibility for the administration and collection of the devolved taxes in Scotland publishes both practical and legislative guidance. The LBTT legislative guidance is intended to supplement and clarify the detail contained in the LBTT (Scotland) Act 2013 whilst recognising that LBTT is a self-assessed tax and that it is the responsibility of the taxpayer to complete and submit an accurate LBTT return, where required, and pay any tax due. If, after reviewing all the guidance material, a taxpayer or their agent still has a general query then this can be emailed to an LBTT mailbox. When LBTT first commenced there was a tendency for tax agents to email the LBTT mailbox with all their queries without reviewing the on-line guidance first. There has now been a significant reduction in the number of queries.

Revenue Scotland and Tax Powers Act 2014 – repayment of tax paid

I can confirm (Eluned Morgan's question on 29 September refers) that section 108 of the 2014 Act, as amended, covers situations where an order intended to change the tax basis of a devolved tax by means of the provisional affirmative procedure applies for a period but is not subsequently approved by the Scottish Parliament within the required period of 28 days from the date of laying.

When such an Order is made, the Order will include a coming into effect date. It is legitimate for this date to be the date of making the Order. In such a case, the changes to the tax basis which the Order makes (which might be changes to tax rates or bands) would apply immediately and taxpayers' liability will change as soon as the order is made. However if the Order is not approved by Parliament within 28 days, the Order falls. Section 108 provides that in such a situation, a taxpayer can make a claim for repayment of the amount of additional tax (including any related penalty or interest) paid during the period when the

Order was in force. This section also provides that any claim must be made within two years of the 'relevant date' which is defined within the section.

Revenue Scotland

Revenue Scotland is the tax authority responsible for the administration of Scotland's devolved taxes, including LBTT. It was established in statute as a Non-Ministerial Department. This means that Revenue Scotland is part of the Scottish Administration but not under the control of the Scottish Government. Revenue Scotland has a Board and a Chief Operating Officer and operates at arm's length from Ministers.

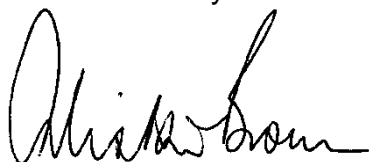
Revenue Scotland recently published their audited Annual Report and Financial Statements for the financial year ending 31 March 2016² (see footnote 2 below for a link to these documents). As part of the Scottish Administration - and in line with other similar types of organisations - Revenue Scotland has a duty placed upon it under the Public Finance and Accountability Act 2000 to prepare accounts as so directed by the Scottish Ministers.

The Revenue Scotland and Tax Powers Act 2014 provides for "Revenue Scotland's independence in that the Scottish Ministers must not direct or otherwise seek to control Revenue Scotland in the exercise of its functions". Although the legislation also provides that the Scottish Ministers "may give guidance to Revenue Scotland about the exercise of its functions and that Revenue Scotland must have regard to that guidance", this power is likely to be used sparingly and to date no such guidance has been issued. It is also worth noting that the legislative requirement to "have regard to guidance issued by the Scottish Ministers" does not by itself compel Revenue Scotland to act in a particular manner and therefore does not restrict Revenue Scotland in exercising its functions.

On the matter of set-up costs, I attach (Annex A) an extract from a letter sent by the (then) Chief Executive of Revenue Scotland to the Scottish Parliament's Finance Committee in October 2015 which gives some background about why the actual set-up costs for Revenue Scotland were higher than originally estimated.

I hope the above is helpful to the Committee. Please do not hesitate to contact me if further explanation is needed, or if additional information would be useful.

Yours sincerely



Alistair Brown

² <https://www.revenue.scot/about-us/publications/corporate-documents>.

Administration of the Devolved Taxes - Update**Letter of 30 October 2015 from Revenue Scotland to the Finance Committee Convenor**Extract from letter 30 October: Set-up and Operating Costs and Staffing Levels

“You asked for information on costs and staffing levels. Annex B sets out figures for costs for 2014-15 and 2015-16 compared to the figures I set out for those financial years in my previous report to the Committee in February 2015. Annex C sets out total set-up costs for Revenue Scotland, again compared to the estimates provided previously in February 2015.

There are a few points that it may be worth noting on these figures:

- The total set-up cost for Revenue Scotland and collection of LBTT and SLfT is £5.5m. This compares to my estimate of £6.3m in February 2015.
- Staff costs for set-up in 2015-16 turned out to be £378k, when I had estimated £770k in my report to you in February 2015. The cost was lower as staff involved in the setting up of Revenue Scotland completed their work earlier than I had estimated and were then quickly able to find work elsewhere. We are now beginning work to plan for collection of air passenger and aggregates taxes in Scotland and are using the underspend on the previous set-up costs this year to fund the early work on the new taxes.
- Staff costs for Revenue Scotland operations for 2015-16 are projected to be around £227k higher than I had estimated in February, due to a combination of increasing the capacity of the team to prepare for introduction of new taxes and some staff costs turning out to be higher than originally estimated.
- The planned transfer of £275k from HMRC will most likely take place in the Autumn Budget Revisions.

The comparison between costs and revenues is also important. The £5.5m set-up cost for the devolved taxes and the total operating cost for 2015-16 of £3.8m were covered in full by LBTT collected between 1 and 17 April. Operating costs for 2015-16 are 0.76 per cent of the £498m tax revenue forecast.

Annex B: Revenue Scotland Costs 2014-15 and 2015-16

	Latest - Oct 2015		Previous - Feb 2015		Variance	
	Actual 2014/15	Estimate 2015/16	Forecast 2014/15	Estimate 2015/16	Actual 2014/15	Estimate 2015/16
Revenue Scotland						
Staff Set Up	1,732	378	1,717	770	15	-392
Non-Staff Set Up	614	34	634	10	-20	24
Total Set Up	2,346	412	2,351	780	-5	-368
Staff Running Costs*	482	1,800	472	1,573	10	227
RS non-staff running costs*	29	542	31	668	-2	-126
Transfer in from HMRC - operational savings		-275		-275		
Total Running Costs	511	2,067	503	1,966	8	101
IT Investment - procurement & maintenance*	513	461	749	419	-236	42
IT Investment - additional staff	306	61	253	93	53	-32
Total IT Investment	819	522	1,002	512	-183	10
New Taxes early planning - Staff		343				343
New Taxes early planning - Non-staff		60				60
Total New Taxes	0	403	0	0	0	403
Total Revenue Scotland	3,676	3,404	3,856	3,258	-180	146
Registers of Scotland						
Set Up	234		280		-46	
Staff Running Costs*		181		240		-59
RoS non-staff running costs*		16		85		-69
Total Registers of Scotland	234	197	280	325	-46	-128
Scottish Environment Protection Agency						
SEPA set-up	268		240		28	
SEPA running costs*		496		502		-6
Total SEPA	268	496	240	502	28	-6
Additional Compliance Activity 2015-16 only*		247		259		-12
GRAND TOTAL	4,178	4,344	4,376	4,344	-198	0

Total operating cost* (items marked with asterisk) 3,743
As percentage of forecast tax revenue 0.75%

Annex C: Revenue Scotland Set-up Costs

	2013-14	2014-15	2015-16	Outturn Total	Estimate February 2015	Variance
Revenue Scotland						
Staff Set Up	580	1,732	378	2,690	3,067	-377
Non-Staff Set Up	31	614	34	679	675	4
Operational Staff		482		482	472	10
Operational Non-Staff		29		29	31	-2
IT investment - procurement		513		513	980	-467
IT investment - additional staff		306	35	341	346	-5
Total Revenue Scotland	611	3,676	447	4,734	5,571	-837
Registers of Scotland						
Set Up	91	234		325	371	-46
Total Registers of Scotland	91	234	0	325	371	-46
Scottish Environment Protection Agency						
SEPA set-up	140	268		408	380	28
Total SEPA	140	268	0	408	380	28
GRAND TOTAL	842	4,178	447	5,467	6,322	-855

Estimate 2017-18



Estimate of the Income and Expenses for the Year Ended 31 March 2018

Jointly prepared and laid before the National Assembly for Wales
under Section 20(1) of the Public Audit (Wales) Act 2013.

Huw Vaughan Thomas
Auditor General for Wales

Isobel Garner
Chair, on behalf of the Wales Audit Office

Preface

For each financial year, Section 20 of the Public Audit (Wales) Act 2013 requires the Auditor General and the Wales Audit Office to jointly prepare an estimate of the income and expenses of the Wales Audit Office and to lay that estimate before the National Assembly at least five months before the beginning of the financial year to which it relates.

In accordance with Section 20 of the Act, each estimate must cover (amongst other things) the resources required by the Auditor General for the exercise of his statutory functions.

The Finance Committee of the National Assembly may make any modifications to the estimate which it considers appropriate, but no modification can be made unless:

- the Auditor General and the Wales Audit Office have been consulted; and
- any representations that either may make have been taken into account.

The Welsh Ministers must each year move a motion in the National Assembly under Section 125 of the Government of Wales Act 2006 that includes authorisation of the resources to be used (including accruing resources) and payments to be made by the Wales Audit Office. This Estimate sets out the amounts to be included in respect of the Wales Audit Office.

A draft Fee Scheme, prepared under Section 24 of the Public Audit (Wales) Act 2013, is included for consideration alongside the Estimate in view of their interdependency.

Contents

Foreword	6
Value for money at the Wales Audit Office	7
Insight, assurance and promoting improvement	11
Our Strategic Priorities	12
Providing resources to the Auditor General for Wales – priorities and funding for 2017-18	14
Capital and ICT investment	19
The complexities of our fee regime	21
Fee Scheme 2017-18	22
Forward look	24
Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2018	25
Appendix 1 – Wales Audit Office income and expenses	27
Appendix 2 – Main operational activities and associated sources of funding	29

Foreword

The Board of the Wales Audit Office has prepared this Estimate jointly with the Auditor General, fulfilling our statutory remit to provide resources to the Auditor General and to secure resources for our own work programme.

The Auditor General's aim is to enable the National Assembly and the people of Wales to know whether public money is being managed wisely and for public bodies in Wales to understand how to improve outcomes. We are clear that the vital role of independent audit is never more heightened than when resources are scarce and sound decision making is ever more crucial in positively impacting on people's lives.

This Estimate demonstrates the Board's determination that the Wales Audit Office is itself a well-run and accountable organisation. For 2017-18 we are proposing net funding that is £152,000 less (four per cent in real terms) than was approved for 2016-17.

There is a direct dependency between our Estimate, as approved by the National Assembly's Finance Committee, and the fee rates we propose for audit work. Within this document, we include a draft Fee Scheme so that the Finance Committee can consider it alongside the Estimate. The fee rates and statutory fee scales shown have been subject to consultation not only with local government bodies, as required by statute, but with all other audited sectors too.

The consultation feedback has told us that whilst audited bodies welcome our continued three-year freeze in fee rates they would like us to review the way we carry out our audits in light of the financial challenges they are facing. We are responding to this with our strategic transformation project and through the Auditor General's proposals for auditing delivery against the Well-being of Future Generations Act. The Finance Committee supported this in our Estimate for 2016-17, along with funding to expand and promote the development of accounting trainees for the public sector in Wales Work continues on these three important projects and this is reflected in this Estimate.

The Estimate and Fee Scheme precede our Annual Plan, which sets out our key priorities, objectives and performance measures for the year ahead, providing a fuller picture of the use of the resources secured through the Estimate. Our Annual Plan for 2016-17 included forward priorities for 2017-18, which will be delivered through this Estimate and be further detailed in the [Annual Plan for 2017-18](#), to be laid before the National Assembly in March 2017.

As we present this Estimate and draft Fee Scheme for the Finance Committee's consideration, we stress our determination for the Wales Audit Office to play its part in a time of austerity whilst ensuring that we continue to challenge and help public bodies secure change and improvement.

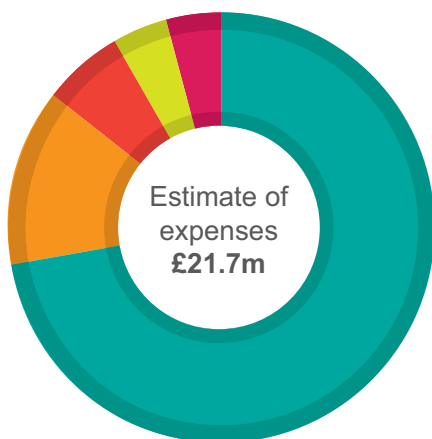
Isobel Garner
Chair, Wales Audit Office

Huw Vaughan Thomas
Auditor General for Wales

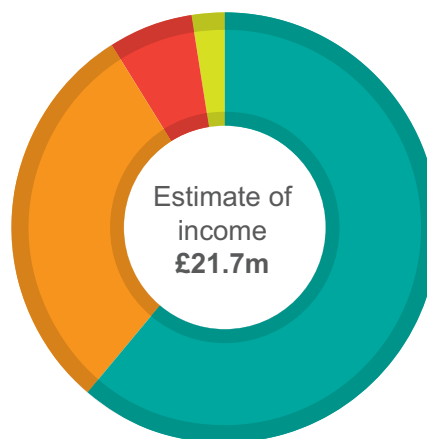
Value for money at the Wales Audit Office

- 1 The Wales Audit Office is required to provide the Auditor General with the resources he needs to undertake his work effectively. The majority of our costs relate to the staff we employ, our contractors, the delivery of audit services across Wales and providing the necessary infrastructure and support services to deliver the work. Further detail can be found in [Appendix 1](#).
- 2 We expect to spend £21.7 million in 2017-18 delivering public audit across Wales. This equates to less than one penny in every five pounds voted on annually by the National Assembly.
- 3 [Exhibit 1](#) demonstrates where we plan to spend this money in 2017-18 and how it will be funded.

Exhibit 1



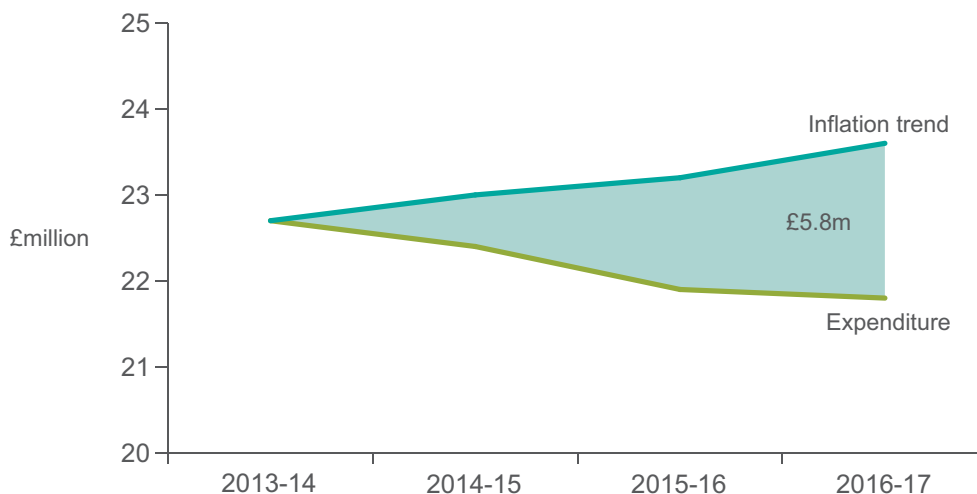
- Staffing £15.7m
- Support costs £2.9m
- Travel £1.3m
- Contractor staff £0.9m
- Audit firms £0.9m



- Audit and inspection fees £13.3m
- WCF £6.5m
- Grant certification fees £1.4m
- WG grant funding £0.5m

- 4 Our 2016 stakeholder engagement survey with public services' Chief Executives, demonstrated that 97 per cent have confidence in the work of the Wales Audit Office, 79 per cent say our work had led to improvement in public services, and 83 per cent see us as a well-run organisation. Our subsequent consultation on fee rates for next year, coupled with our [Annual Report and Accounts 2015-16](#) and this Estimate, sets out our approach to ensuring continued value for money in terms of the overall cost of public audit work.
- 5 Since 2013-14, the year prior to the full implementation of the Public Audit Wales Act 2013, the Wales Audit Office has reduced its **expenditure by 10 per cent in real terms¹**, as represented in [Exhibit 2](#). The cumulative saving generated across those years (the shaded area in [Exhibit 2](#)) amounts to almost £6 million, reducing both the call on the Welsh Consolidated Fund (WCF), other than for new responsibilities agreed with the Finance Committee, and the amount required to be raised from audit fees.
- 6 These savings build on real-terms reductions in expenditure of over 20 per cent between 2009-10 and 2013-14.

Exhibit 2 – Expenditure 2013-14 to 2017-18



¹ Based on GDP deflators published by ONS, June 2016.

- 7 Reductions in expenditure have been planned in response to the austerity measures being faced by our audited bodies, reductions in the overall quantum of work undertaken, and in achieving our own ambitions under our Smarter, Leaner, Better efficiency and effectiveness programme.
- 8 Over the same period we have worked hard to absorb cost increases from pay awards, contractual salary increments, general inflation and increases in employers' national insurance and pension contributions.
- 9 The Board remains committed to ensuring the Wales Audit Office itself is a well-run and accountable organisation that demonstrates the highest standards of efficiency and effectiveness, and that our work represents good value. Building on savings achieved in previous years, we take a forward-planning approach that will enable us to achieve additional savings for 2017-18. **Exhibit 3** summarises cash savings identified since 2013-14 and those proposed for 2017-18.

Exhibit 3 - Savings achieved and planned

	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000	Total
Savings from new contractual arrangements with audit firms	–	165	640	–	805
Savings from reviewing management and administrative costs	300	410	140	–	850
Savings from improving the efficiency of our operations	–	185	220	405	810
TOTAL	300	760	1,000	405	2,465

- 10 Importantly, the above savings are enabling us to meet cost increases without impacting fee rates. We have also actively managed reductions in our fee/grant income base without needing to revisit fee rates or seek additional funding from the National Assembly. During the past year, we completed difficult negotiations to close the Wales Audit Office lease car scheme and introduce a revised Travel Scheme for staff that will deliver savings of circa 10 per cent annually on our travel costs, so further reducing our overhead costs in the years ahead.
- 11 We have reviewed the skills mix of our financial audit teams, to enhance our graduate trainee scheme linked to the implementation of the Pan-Wales Finance Trainee programme creating Wales's future finance professionals. In the medium term, this will help contain the cost of audit work.
- 12 Looking ahead, whilst our current transformation project on the use of data and information technology is unlikely to impact significantly on our audit fees in 2017-18, we expect it to lead to longer-term changes in our audit approach, positively influencing both our cost base and our fees.
- 13 Having frozen fee rates since 2014-15 we are able to propose a **further freeze for 2017-18** as set out in our draft Fee Scheme which is included within this document. This represents a four per cent real-terms reduction in fee rates since 2014-15.

Insight, assurance and promoting improvement

- 14 Every year, the Auditor General reports on the accounts of over 800 public bodies in Wales, undertakes annual improvement assessments at all 28 local government improvement authorities and structured assessments at all 10 NHS bodies. He publishes around 15 national reports annually, looking at value for money and proper use of public money, certifies around £2.5 billion worth of grant claims, and advises on the work of the Public Accounts Committee. The main operational activities of the Auditor General are set out in [Appendix 2](#).
- 15 It is this work that provides the quantum over which the Wales Audit Office costs are recovered, by way of fee charges to audited bodies, a grant for the Wales Programme for Improvement (WPI) work, and funding from the Welsh Consolidated Fund (WCF).
- 16 The Board provides highly skilled staff to undertake broadly 90 per cent of the Auditor General's work programme, complemented by a further 10 per cent of audit resource contracted from private sector accountancy firms and specialist contractors.
- 17 Our [Annual Plan for 2016-17](#) sets out our strategic priorities, as below, and this Estimate for 2017-18 demonstrates the funding needed against those priorities for next year.

Our Strategic Priorities

Continue to undertake our audit work with an austerity emphasis



We will continue to place increased emphasis on strengthening financial management across the Welsh public sector and improving the effectiveness and efficiency of the use of public resources and assets.

Our audit work will focus on assisting service transformation and helping public bodies cope with, and succeed despite, the impact of funding reductions.

Report more comprehensively on the effectiveness of governance arrangements



We will enhance our audit work on governance arrangements to support public bodies in meeting their responsibilities under the new legislation.

Increasingly, our consideration of financial resources, and the way in which public bodies account for their use, will be integrated with a consideration of their stewardship of human and natural resources.

Strengthen our workforce strategy so we can better respond to future developments



We will strengthen and optimise our workforce strategy to ensure we can both meet current demand and are able to anticipate and respond to future developments.

Our emphasis will be on having the right number and a diverse mix of people, with the right skills, knowledge and experience, in the right place, at the right time and at the right cost.

Make more effective use of data and information technology



We will undertake audit work focussed on audited bodies' capacity to exploit digital transformation and their digital risk awareness.

We will also seek to take steps to enhance the impact of our work through further exploring new technology and maximising the effectiveness of our data collection, analysis and communication findings.

- 18 In contrast to other UK Audit Offices, for historic reasons, much of our audit work is funded from fees charged to audited bodies. This Estimate provides resourcing specifically for national value for money and reactive studies, exchange of Good Practice across public services, Local Government national studies, preparatory work associated with the Well-being of Future Generations Act 2015 and the Welsh Revenue Authority and technical support, research and development including audit compliance and quality assurance.
- 19 Specific recent examples of this work include a review of financial resilience in Local Government, a report on Coastal Flood and Erosion Risk Management and an investigation into the Welsh Government's funding for Kancoat Ltd. We aim to deliver around 10-12 reports for consideration by the Assembly's Public Accounts Committee each year along with two to three national Local Government Studies.
- 20 The Wales Audit Office needs to continue to work within the context of the wider public sector funding challenges and political and legislative changes. These changes can both increase and reduce the volume of audit work required and change the nature of the work required and the skill sets needed in our workforce. In order that we can respond in an agile manner we are strengthening our workforce strategy. Investment in staff skills remains important to us; this Estimate continues resourcing for staff learning and development and the expansion of our successful programme to develop accounting trainees for the Welsh public sector.
- 21 The fourth Assembly's Finance Committee supported our ambitions to challenge our existing use of data and technology, question the assumptions we normally take for granted and develop radical solutions as to how we might use new technology to transform our audit and business processes by 2025. We expect this work to lead to changes in our audit approach in the medium to longer term, reducing both our cost base and our fees.
- 22 This Estimate identifies resourcing to continue this strategic transformation work and to maintain sectoral intelligence through close, senior level engagement across the sectors we audit..
- 23 Our Estimate also provides funding to allow both mandatory and voluntary participants in the **National Fraud Initiative** (NFI) to do so free of charge. Public bodies tell us that the Assembly's funding of this free service, through our Estimate, is valued. Since its launch in 1996, NFI exercises have resulted in the detection and prevention of more than £30 million of fraud and overpayments in Wales and £1.3 billion across the UK. At least eight additional organisations have expressed an interest in participating in this year's NFI in response to the Finance Committee's supporting participation on a no-cost basis.

Providing resources to the Auditor General for Wales – priorities and funding for 2017-18

- 24 Broadly, 70 per cent of the Wales Audit Office's expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government for the Wales Programme for Improvement (WPI). The remaining 30 per cent is provided directly from the Welsh Consolidated Fund (WCF).
- 25 In 2016-17, Welsh Government WPI grant funding was reduced by 50 per cent subsequent to the approval of our Estimate for 2016-17, resulting in a reduction in the amount of work that is being carried out at Local Authorities. This Estimate is predicated on there being no further reduction in the amount of grant received from the Welsh Government to fund work undertaken to support improvement within Local Government. If a reduction is announced, we may find it necessary to return to the Finance Committee.

Priority: the audit approach under the Well-being of Future Generations Act 2015

- 26 The Well-being of Future Generations (Wales) Act 2015 requires specified public bodies to set and publish well-being objectives, take steps to meet those objectives and report annually on their progress. The Act requires the Auditor General to carry out examinations into the extent to which those public bodies set objectives and take steps to meet them in accordance with the sustainable development principle.
- 27 Evidence was provided to the last Assembly's Environment and Sustainability Committee on the estimated cost of this new duty placed on the Auditor General. At that time our estimate was in the range of £225,000 to £875,000 per annum. We are looking to minimise additional costs by working with audited bodies to develop our audit approach. By building on and adapting existing audit approaches in local government and health in particular, we now estimate that the additional cost of implementing the Auditor General's duty under the Act will be at the lower end of that range.
- 28 Funding of £422,000 was agreed in our Estimate for 2016-17 to allow us to develop and test our audit approach. [Exhibit 4](#) details how we are spending this money in 2016-17.
- 29 We have urged the Welsh Government to reconsider the audit requirements for Local Government under Part 1 of the Local Government (Wales) Measure 2009. The Auditor General has previously given evidence to the National Assembly that reducing the extensive assessment requirements placed on him by the Measure and introducing instead simplified improvement planning and reporting requirements that are integrated with other legislation would have the potential to reduce costs for both Local Authorities and auditors, ensuring that limited resources are used to best effect. Our stated position, for Local Government, is that the additional fees which we are required to charge in respect of work arising from the Well-being of Future Generations Act should be offset by the reductions in fees that would result from either the repeal or reform of the Measure. Fee Consultation responses from Local Government bodies have reinforced this view.
- 30 For health bodies, we will seek to adapt existing audit work to meet the new requirements so as to minimise any increase in fees beyond 2017-18.

Exhibit 4

Wellbeing of Future Generations Act –2016-17
We have carried out a consultation with the public bodies specified in the legislation and other key stakeholders , inviting views on re-shaping our audit approach in response to the Act. Eighty per cent of bodies covered by the Act responded to the consultation, along with 23 other stakeholders.
The responses demonstrated widespread support for the principles of public audit and a majority view in favour of a redesigned and more consistent audit approach based on a common governance framework. The Auditor General published his review of those responses in an open letter to public service leaders, in August 2016.
We are using the majority of the WCF funding to meet the staffing costs of developing, consulting upon and testing our audit approach without impacting on audited body fees. Funds are being used to employ a dedicated Project Manager, to backfill audit staff involved in development activity and to buy in specialist expertise, without passing on those costs through fees.
A joint stakeholder event with the Future Generations Commissioner is to be held in Cardiff on 22 November 2016. At the event the Auditor General and the Commissioner will set out how they are working together under the Act and will launch their Memorandum of Understanding.
The Wales Audit Office Good Practice Exchange has held a number of shared learning events on themes related to the Act, including a very successful event on 'The Future of Governance: Effective decision making for current and future generations'.

- 31 For central government bodies, the Auditor General's duty under the Act necessitates additional audit work, which will inevitably result in additional fee charges beyond 2017-18 unless an alternative funding model is put in place. Fee Consultation feedback indicates that the smaller, Welsh Government Sponsored Bodies will struggle to absorb these additional costs in the absence of additional funding from the Welsh Government.
- 32 Following our initial development and testing of audit approaches in 2016-17 it will be necessary to evaluate and refine our audit approach. This will continue our development activity into 2017-18, hence our inclusion of continued development funding, albeit at a lower level, into 2017-18.
- 33 **We are reducing funding allocated for this priority to £300,000 for 2017-18, which will include £150,000 to complete our development work and £150,000 to moderate the fees we would otherwise have to charge to audited bodies for this work.**

Priority: promoting the development of graduate accounting trainees

- 34 In the 2016-17 Estimate, we set out our proposal to expand and enhance our existing trainee programme by offering secondments across the public sector in Wales. The Finance Committee supported additional funding of £132,000 for this objective. Our proposal had the dual aim of helping to remodel our own workforce through the greater use of trainees and to contribute to the future pool of finance talent available to the wider Welsh public sector. [Exhibit 5](#) details what we have achieved to date with this funding.

Exhibit 5

Graduate Trainee Programme – Achievements to date
For the first time we have brought together Directors of Finance from across the public sector in Wales to help develop a consistent understanding of future skills requirements. This includes local government, NHS Wales, the Welsh Government and its Sponsored Bodies, fire and rescue authorities, police, higher education and further education, ONS, Companies House, DVLA and the Royal Mint.
We recruited nine new graduate trainees in 2016. This increases the total number of Wales Audit Office graduate trainees to 26 as at September 2016.
Five Wales Audit Office trainees are due to be seconded to other public sector bodies during 2016-17 (Cardiff City Council, Welsh Government, Cwm Taf Health Board, South Wales Police and Betsi Cadwalader University Health Board) Appropriate safeguards will be put in place to ensure the Auditor General's audit independence.
The above has encouraged further secondments within and across participating bodies, including the Welsh Government, Cardiff University, Betsi Cadwaladr University Health Board and Aneurin Bevan Health Board.
An enhanced trainee skills development programme is being rolled out that will culminate in an accredited junior leadership programme. This will constitute accredited first line management training in the final year of their professional studies. We are exploring whether this junior leadership programme can be extended to trainees in other public bodies.
A Trainee conference has been arranged for 1 November 2016 at which we are expecting around 200 finance students from across the public sector. We have achieved a high level of interest from students and public sector leaders (who are supporting and speaking at the event).
One of our Directors, Ann-Marie Harkin, has won a Leading Wales Award in recognition of what judges called her 'clear vision' and her work to develop the next generation of public sector finance professionals.

- 35 A further 10 graduate trainees will be brought in to the scheme in 2017-18, along with a further two full-time equivalent secondment opportunities being made available, bringing it to 10 to 12 full-time equivalent opportunities annually.
- 36 In collaboration with other public sector bodies, we are undertaking preliminary work on the establishment of a finance apprenticeship scheme. This work has been delayed pending clarification as to how the apprenticeship levy is to work in Wales. However, we are firmly committed to the establishment of a scheme in the Wales Audit Office and will be looking to learn from the experience of other UK Audit Offices.
- 37 **In order to continue to underpin the pan-Wales secondment scheme we are allocating funding of £212,000 for 2017-18, an increase of £80,000 over the current year.**

Priority: ensuring compliance with Welsh Language Standards

- 38 The Wales Audit Office and the Auditor General are both working towards full compliance, wherever possible, with the 2015 Welsh Language Standards. In 2017-18 we will be providing training to our reception staff to ensure they can provide bilingual services.
- 39 **In order to provide necessary Welsh Language training and cover for reception staff, we are allocating funding of £20,000 in 2017-18.**

Funding: estimated use of the Welsh Consolidated Fund

- 40 **Exhibit 6** sets out the areas of expenditure funded from the WCF rather than the fees we charge audited bodies. These are costs that are more closely linked to our role in providing audit leadership, setting standards, delivering National Assembly policy and supporting National Assembly scrutiny.
- 41 **This represents a reduction of £152,000** from our Estimate for 2016-17.

Exhibit 6 - Estimated use of WCF

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Cost of providing value-for-money studies by the Auditor General including reactive studies, Local Government National Studies, all-Wales summaries of local audit work and responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others. (Staff time and associated costs)	2,490	2,490
Technical support, research and development including compliance and quality assurance. (Staff time and associated costs)	744	744
The Good Practice Exchange. (Staff time and associated costs)	540	540
Support for Wales Audit Office audit trainees. (Cost of non-chargeable study time and management support)	320	320
Pan-Wales Graduate Trainee programme (paragraphs 34 to 37)	212	132
Investment in staff learning, development and succession planning. (External training costs plus non-chargeable staff time)	500	500
Providing support to the Public Accounts Committee and other National Assembly committees. (Staff time)	420	420
Wales Audit Office Governance. (Cost of the Board plus staff time supporting governance arrangements)	300	300
Equalisation of all-Wales travel costs. (Ensures that audited bodies are not disadvantaged by their geographical location)	300	300
Strategic transformation and sectoral intelligence. (Staff time)	230	230
Developing our audit approach for the Well-being of Future Generations Act (paragraphs 26 to 33)	150	422
Moderating the impact on fees for work required to comply with the requirements of the Well-being of Future Generations Act (paragraphs 26 to 33)	150	–
Preparatory work for the Welsh Revenue Authority. (Staff time)	50	50
Cyclical funding for the National Fraud Initiative (paragraph 23)	50	180
Depreciation funding for capital assets (historical and non-cash)	50	50
Ensuring compliance with Welsh Language standards (paragraphs 38 to 39)	20	–
Total revenue expenditure requirement	6,526	6,678

Capital and ICT investment

42 Our capital investment priorities for 2017-18 to 2019-20 linked to our internal IT Strategy are set out in [Exhibit 7](#). The agreed programme for 2016-17 is provided for information.

Exhibit 7 - Capital Investment Priorities

	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
Planned PC/IT renewal	50	50	50	50
Performance Audit knowledge management system	80	80	–	–
North Wales office relocation	50		–	–
Network infrastructure renewal	40	20	40	50
Video conferencing infrastructure renewal	30	30	10	30
Strategic Transformation Project	–	50	50	50
Replacement Financial System	–	100	150	–
Replacement telephony system		50	–	–
TOTAL	250	380	300	180

- 43 **Planned PC/IT Renewal**
A rolling programme of PC/IT equipment renewal to ensure business continuity and that equipment remains up to date and reliable. Planned replacement leads to lower costs over the long term, by minimising the incidences and impact of equipment failure and maximising the productivity of professional staff.
- 44 **Performance Audit Knowledge Management System**
Following the delivery of the new audit platform for Financial Audit work, we are continuing with a programme of work to design, test and implement IT solutions to support the delivery of our Performance Audit work.
- 45 **Network Infrastructure Renewal**
Periodically we need to refresh the data network infrastructure associated with our offices in order to ensure it remains supportable and able to accommodate future connectivity demands. This will also allow us to cater for the expected continuing transition to 'cloud services' during coming years, and for increasing use of web-based video and multimedia.
- 46 **Video Conferencing Infrastructure Renewal**
Our video conferencing facilities have proved themselves in reducing the costs, environmental and staff time impacts of business travel, so we will invest further in the facilities at our three office locations. We will also continue with PC-based video conferencing to support colleagues working remotely and from offices with no VC facilities. This combined approach will ensure video conferencing is available, wherever and whenever our staff and partners find it beneficial to use it.
- 47 **Strategic Transformation Project**
Our Strategic Transformation project is looking at improved use of data and technology during 2016-17. The project is looking beyond the short term to find ways we can improve our business offering for clients, taking advantage of the rapid developments underway in the technology marketplace. This will potentially require investment in new equipment and software.
- 48 **Replacement Financial System**
We are looking to replace or upgrade our current financial system to ensure that our internal processes and reporting functionality continue to meet best practice standards. This significant investment remains subject to consideration of a full business case in early 2017 and may be spread over two years to reflect the likely timescale for implementation.
- 49 **Replacement Telephony System**
Our current telephone system will need to be replaced to ensure it remains reliable and up to date. When we replace the system we will ensure it has the required functionality to ensure compliance with Welsh Language Standards.

The complexities of our fee regime

- 50 We do not generate profits on our fees. Under legislation, we must **charge no more than the full cost of the exercise of a function**. Unlike commercial audit firms we cannot take one assignment at an audited body with another. Where we make a surplus on an individual audit assignment, we have to refund it to the audited body regardless of other work we may be doing with them. Where we incur additional costs over the agreed fee, we assess the reasoning and form a view as to whether we should pass on that cost to the audited body. The Public Audit (Wales) Act 2013 legitimises the charging of all additional costs, but the realities of application mean there is a real tension with audited bodies where we seek to charge costs greater than the fee that we originally estimated for the work. The Fourth Assembly's Finance Committee acknowledged our challenge (and that of the public sector as a whole) in grappling with these complexities.
- 51 We calculate fee rates by dividing our total estimated costs, other than those covered by the WCF, by the amount of audit work to be undertaken in the year. We set our audit fees based on the estimated skills mix and number of days required to complete the work. The actual expenditure, actual skills mix and actual days' work for each individual audit project inevitably differ and the fee originally set may be found to be less than or exceed the actual costs we incur. Alongside those factors, we must of course remain within approved budget limits in each financial year, with no scope for carrying forward funding balances from one year to the next, whereas most of our audit projects straddle two financial years. In essence, we are constrained by the rigidity of the funding and accounting regime.
- 52 A funding model which allows for greater flexibility in the fee regime, or one which provides greater emphasis on core funding through the WCF and less on specific fee charges, would likely be significantly more efficient and cost-effective to administer. This would also be consistent with the regime required of other audit bodies in the UK. As part of our own commitment to work Smarter, Leaner, Better in these challenging times, we will be commissioning a review of the current regime and will be looking to consult on the outcome of this work early in 2017. We will present the outcome of that consultation to the Finance Committee.

Fee Scheme 2017-18

- 53 Included within this Estimate document is our draft Fee Scheme for 2017-18 ([Appendix 3](#)). This has been included to demonstrate the interdependency between fee income and the approved Estimate. Following consideration of the Estimate and draft Fee Scheme, we will lay our Fee Scheme for 2017-18 before the National Assembly and then advise audited bodies of their estimated fees for next year.
- 54 We again considered it vital to avoid increases in fee rates in light of the financial challenges facing our audited bodies. This Estimate therefore sets fee rates for 2017-18 at the same level as first set from 1 April 2014 ([Exhibit 8](#)), representing a real-terms reduction of four per cent.

Exhibit 8 - Fee rates for audit staff

Grade	Fee rate 2017-18 (£ per hour)	Fee rate 2016-17 (£ per hour)
Engagement director/lead	162	162
Audit manager	111	111
Performance audit lead	93	93
Financial audit team leader	75	75
Performance auditor	65	65
Financial auditor	56	56
Graduate trainees	43	43

- 55 We went beyond the statutory fee consultation requirements and, in August 2016, consulted with all audited sectors and other stakeholders on our fee scales and fee rates for 2017-18.
- 56 Consultation responses, from across all the sectors audited, told us that:
- Most bodies welcomed the proposed freeze in fee rates and the continued nil charge for NFI work. A number of bodies stated that they would not participate in the NFI if they had to pay to do so.
 - Smaller Welsh Government bodies in particular were concerned about the impact of additional fees for WFG audit work, which they fear will not be funded by their sponsoring departments.
 - A small number of bodies queried whether our fees represented value for money and asked that we reconsider our audit approach. We are responding to this in this Estimate and through our Strategic Transformation project.
- 57 The Board welcomes this feedback and has taken it into account in finalising this Estimate and the enclosed draft Fee Scheme.

Forward look

- 58 The evolving landscape for our public audit work presents a complicated picture for the Wales Audit Office, encompassing:
- any impact of Brexit on funding and legislation;
 - continued public sector funding restraint and responses to it such as new models of service delivery and financing mechanisms;
 - digitisation of service delivery, increased public access to audit-related data and expanded use of social media and other digital communication;
 - the Welsh Government's legislative programme and any impacts for the work of the Auditor General;
 - impacts of further devolution and tax-raising powers for Wales;
 - earlier closure of local government accounts from 2018-19, with resultant impacts on resourcing across both local government and the Wales Audit Office; and
 - public sector pay restraint competing with significant increases in private sector trainee and qualified auditor salaries.
- 59 Within the changes above, we are expecting a continued increase in the amount of correspondence from the public and other stakeholders and associated reactive work.
- 60 We are actively planning for all of the above, both in terms of our financial and workforce plans, in order to ensure that we continue to provide quality audit services, by:
- setting an annual efficiency savings target, £405,000 in 2017-18, through our Smarter, Leaner, Better efficiency and effectiveness programme – to help ensure every pound we spend has maximum impact;
 - reviewing our workforce planning strategy and considering the skills mix and workforce model that will be required in the future – so we can reshape our workforce over time, preparing for changes to our work programme;
 - capitalising on our strategic intelligence to inform developing policy and position ourselves for effective responses such as to Brexit and the Welsh Government legislative programme; and
 - maintaining capacity for transformational thinking in our approaches to audit work.
- 61 Further, annual estimates and interim and annual reports will demonstrate how we are facing the challenges and remaining focused on ensuring the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2018

- 62 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the WCF for certain relevant persons, including the Wales Audit Office.
- 63 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2018, the Budget Motion will authorise:
- the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
 - the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the WCF; and
 - the amount which may be paid out of the WCF to the Wales Audit Office.
- 64 These requirements, which due to the variability of income streams can only be estimates, are summarised in [Exhibit 9](#).

Exhibit 9 - Summary of the estimated 2017-18 budget requirements

	£'000
Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office and the Auditor General, and on the administration of the Wales Audit Office:	
• Revenue	6,526
• Capital	380
Accruing resources from fees and charges for audit, grant certification and related services; grants received to fund audit services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services; recoveries of costs, such as seconded staff, staff loans, car leasing payments; recoveries of any costs incurred for a third party; and interest received on working balances – all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	15,154
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	6,706

65 Exhibit 10 provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2018.

Exhibit 10 - Reconciliation of resource requirement to cash drawing requirement from the WCF

	£'000
Net request for resources – revenue and capital	6,906
Non-cash adjustment – depreciation and accruals	(200)
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	6,706

Appendix 1 – Wales Audit Office income and expenses

	Estimate, year to 31 March 2018 £'000	Forecast, year to 31 March 2017 £'000
Staff costs	15,411	15,275
Contractor staff	870	980
Travel and subsistence	1,299	1,267
Private sector firms (including VAT)	874	869
Accommodation	938	936
ICT	399	433
Balance of irrecoverable VAT	390	390
Wales Audit Office Governance Arrangements	300	300
External training	255	275
Legal and professional fees	201	295
Translation of documents	145	120
Other costs	598	819
EXPENSES TOTAL	21,680	21,959
Audit fees	13,288	13,375
Grant certification fees	1,406	1,411
WPI grant from the Welsh Government	460	495
INCOME TOTAL	15,154	15,281
Total revenue budget to be funded by WCF	6,526	6,678

Analysis of estimated fee income

Sector	Audit of accounts £'000	Performance audit £'000	Grant certification £'000	Total 2017-18 £'000	Total 2016-17 £'000
Local government bodies	5,785	2,538	1,406	9,729	9,738
Central government bodies	1,790	–	–	1,790	1,850
NHS bodies	1,886	1,224	–	3,110	3,115
Other income	37	28	–	65	83
Total fee income	9,498	3,790	1,406	14,694	14,786
2016-17 Comparator	9,553	3,822	1,411	14,786	–

Appendix 2 – Main operational activities and associated sources of funding

Activity	Scale	Source of funding
Audit of accounts prepared by central government and health bodies	Eight accounts prepared by the Welsh Government; 25 other accounts, including the Assembly Commission; eight Welsh Government Sponsored Bodies, seven health boards; and three NHS trusts.	Fees charged to audited bodies.
Audit of accounts prepared by local government bodies	Twenty-two unitary authorities, four police and crime commissioners and chief constables, three fire and rescue authorities, three national park authorities, one internal drainage board, eight pension funds, and approximately 750 town and community councils and other small bodies.	Fees charged to audited bodies.
Local government improvement assessments	Includes annual audits of whether authorities have discharged their improvement planning and performance reporting duties; annual assessments of the likelihood of compliance with improvement duties; cyclical in-depth corporate assessments and special inspections. Undertaken at 28 improvement authorities, (the 22 unitary authorities, three fire and rescue authorities, and three national park authorities).	Fees charged to audited bodies. The Welsh Government also provides grant funding to support improvement assessment work.
Local performance audit work at health bodies	Includes assessments of arrangements to secure value for money in the use of resources. Undertaken at seven health boards and three NHS trusts.	Fees charged to audited bodies.
Compliance with audit requirements of Well-being of Future Generations Act 2015	44 public bodies specified in the Act	WCF in 2017-18. Future funding likely to be a combination of fees and WCF, following approval by the National Assembly.
Certification of grant claims and returns	Twenty one local government schemes (around 400 claims with a total value of some £2.5 billion).	Fees charged to audited bodies.
Value-for-money studies	Typically around 15 studies and other outputs are undertaken each year, looking at value for money in key areas of public spending. Often this work is undertaken from a 'whole-system' or 'cross-cutting' perspective, where public spending is examined irrespective of who delivers the services.	Financed from the WCF, following approval by the National Assembly.

Activity	Scale	Source of funding
Good Practice Exchange	Working with others to share learning and good practice.	Finance from the WCF following approval by the National Assembly.
Other significant activities	<p>Includes:</p> <ul style="list-style-type: none"> • checking requests for grant of approval to draw from the WCF; • anti-fraud and other data-matching exercises, including the NFI; • responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others; • providing support to the Public Accounts Committee and other National Assembly committees; and • administration of the Wales Audit Office. 	Financed from the WCF, following approval by the National Assembly, and some activities are also funded by fees charged to audited bodies.

Appendix 3 – Draft Fee Scheme 2017-18

Introduction

This Fee Scheme has been prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013 (the Act) ([Annex 1](#)). The Fee Scheme, following approval by the National Assembly's Finance Committee, provides the basis on which the Wales Audit Office charges fees.

For the first time, the Wales Audit Office Estimate (for 2016-17), considered by the Finance Committee in November 2015, included a draft Fee Scheme in full. This new approach reflects the Wales Audit Office Board's determination to further enhance transparency and to demonstrate the direct relationship between our cost base and its resultant impact on fee rates.

The Board has listened carefully to stakeholder feedback in relation to our cost-efficiency agenda and the fee rates we set. In seeking the National Assembly's support for our Estimate for 2017-18, we proposed in the Estimate:

- A **third-year** freeze of fee rates and fee scales in cash terms, which feedback told us would be welcomed. In real terms this represents a reduction of four per cent since those rates were set in 2014-15.
- To meet cost pressures in relation to staff pay, inflation and other costs through internal savings and efficiencies so as not to affect fees.
- To continue in line with previous National Assembly agreement to fund National Fraud Initiative (NFI) work from our charge on the Welsh Consolidated Fund rather than through fees charged to participating bodies. Feedback told us that audited bodies welcome this approach.
- To continue to finance development work associated with the Well-being of Future Generations Act 2015 from a charge on the Welsh Consolidated Fund rather than through fees charged to affected bodies.
- To expand public sector secondment opportunities for our accounting trainees, without impacting on fees charged for audit work.
- To maintain capacity for transformational thinking in our approaches to audit work. Feedback reinforced the need for us to do more developmental work as part of balancing the overall cost of audit on public bodies.

This Fee Scheme reflects the approved Estimate and in broad terms sets out:

- The enactments under which the Wales Audit Office charges audit fees.
- The arrangements for setting those fees, which comprise either:
 - fee scales that set out fee ranges for particular areas of audit work in local government; or
 - fee rates for work not covered by fee scales.

Broadly, 70 per cent of our expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government to support improvement assessment work. The remaining 30 per cent is provided directly from the Welsh Consolidated Fund through vote of the National Assembly. Further information about our expenditure and funding is contained in annual estimates of income and expenditure which are laid before the National Assembly.

List of enactments

[Annex 2](#) sets out the enactments under which the Wales Audit Office may and must charge fees.

Fee rates and fee scales

The Wales Audit Office does not generate profits on fees. Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. Our fee rates are set at a level to recover that full cost.

There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, as a result of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.

Legislation governing the fee regime in Wales is more complex than in other parts of the UK. As the Auditor General outlined to the Finance Committee in the last Assembly, this creates inefficiency and additional cost for the public sector in Wales. We are keen to develop proposals for a simpler and more cost effective arrangement which can be considered by the present Assembly's Finance Committee. We will be looking to consult public services on possible options early in 2017.

We went beyond the statutory fee consultation requirements and, in September 2016, consulted all audited bodies and other stakeholders on our fee scales and fee rates for 2017-18. We received responses from across the sectors we audit. Those responses told us that:

- Continued freezing of fee rates is very much welcomed as is the funding of participation in the National Fraud Initiative.
- There is some concern, particularly amongst Welsh Government Sponsored Bodies at the potential charges for audit work required by the Well-being of Future Generations Act 2015 not being met by Welsh Government funding.
- There is some pressure for a more streamlined audit approach, to help reduce overall fees charged for audit work. Funding identified for transformational thinking in 2016-17 is being used to review our approach. This work will continue in 2017-18.

The Board welcomed this feedback and responds to it through this Fee Scheme and our Estimate.

Exhibit 1 sets out the hourly fee rates for audit staff. These have remained frozen since 2014-15, representing a four per cent reduction in real terms.

Exhibit 1 - Fee rates for audit staff – on all audit work

Grade	Fee rate (£ per hour)
Engagement director	162
Audit manager	111
Performance audit lead	93
Financial audit team leader	75
Performance auditor	65
Financial auditor	56
Graduate trainee	43

We are 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 (NFI).

Fee scales for the audit of 2016-17 financial accounts and 2017-18 improvement audits and assessments are provided in **Annex 3** in relation to 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. A separate fee scale is provided in relation to the NFI.

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.

Audited bodies not covered by the statutory requirement for a fee scale have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit.

Auditors undertake grant certification work on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are calculated using the fee rates and reflecting the size, complexity or any particular issues in respect of the grant in question.

The fee rates apply to all audit work that the Wales Audit Office will charge for, except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done by agreements prior to 1 April 2014, rates are in terms as agreed). If it subsequently appears to the Wales Audit Office that the work involved in a particular audit differs substantially from that originally envisaged, the Wales Audit Office may charge a fee which differs from that originally notified.

In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service. To meet their statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to electors' questions and objections, and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of Wales Audit Office staff.

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

The Well-being of Future Generations Act requires specified public bodies to set and publish well-being objectives, take steps to meet those objectives and report annually on their progress. It also requires the Auditor General to carry out examinations into the extent to which those public bodies set objectives and take steps to meet them in accordance with the sustainable development principle.

During 2016-17, we are working with audited bodies named in the Act and the Future Generations Commissioner for Wales as we develop and test audit approaches to fulfil the Auditor General's duty under the Act. The Auditor General recently carried out a consultation on the implications of the Act on our audit approach. We are taking account of the positive and constructive responses to that consultation as we develop and test our audit approach, working closely with a representative sample of audited bodies and with the Future Generations Commissioner. We expect this development work to continue into 2017-18 and we have sought continued, albeit reduced, funding from the Welsh Consolidated Fund for that purpose.

As we confirm our audit approach over the course of the year, we will talk to relevant audited bodies about the implications of discharging the Auditor General's duty under the Act for fees from 2017-18 onward. For 2017-18, we do not plan to charge additional costs for this work, dependent on Assembly approval of our Estimate. Our aspiration, supported by consultation responses, is to integrate the requirements of the Act into our existing audit work, wherever practicable, as we move towards a consistent framework for review across all the bodies subject to the Act.

Charging of fees

Each body's Engagement Director will explain that body's skills' mix for the audit and the factors influencing the overall fee. Charging arrangements are agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.

Audited bodies are expected to pay the Wales Audit Office's invoices within their performance target for creditor payments, usually 10 days in the public sector. We may charge for the administrative costs incurred in pursuing late payments.

On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional costs where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.

Annex 1 – 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 National Assembly.
- (8) The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

Annex 2 – List of enactments under which the Wales Audit Office may and must charge fees

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities	
Audit of accounts by the Auditor General (other than local government accounts)	Section 23(2) Public Audit (Wales) Act 2013
Value for money studies undertaken by agreement	Section 23(3)(a)-(c) Public Audit (Wales) Act 2013
An examination, certification or report under section 31 of the Tax Collection and Management (Wales) Act 2016 in respect of the Welsh Revenue Authority's Tax Statement	Section 23(3)(ba) Public Audit (Wales) Act 2013
An examination under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2) (examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle)	Section 23(3)(ca) Public Audit (Wales) Act 2013
Any functions of a relevant authority exercised by the Wales Audit Office or the Auditor General and undertaken by agreement, and 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 Public Audit (Wales) Act 2013	Section 23(3)(d) Public Audit (Wales) Act 2013
An extraordinary audit of the accounts of a local government body	Section 37(8) of the Public Audit (Wales) Act 2004
Data-matching exercises	Section 64F(A1) of the Public Audit (Wales) Act 2004 A fee scale must be prescribed for this work
Advice and assistance provided by the Auditor General for registered social landlords	Section 145D(2) of the Government of Wales Act 1998

Nature of work	Enactments
The Wales Audit Office must charge fees for the following activities	
Work under the Local Government (Wales) Measure 2009	Section 27 of the Local Government (Wales) Measure 2009 A fee scale must be prescribed for this work
Grant certification services	Section 23(4)(a) Public Audit (Wales) Act 2013
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
Auditing the accounts of a local government body and undertaking studies by agreement with a local government body	Section 20(A1)(a)-(b) of the Public Audit (Wales) Act 2004 A fee scale must be prescribed for the audit of the accounts of local government bodies
Benefit administration studies for the Secretary of State. The Auditor General may conduct, or assist the Secretary of State in conducting, a benefit administration study only if the Secretary of State has made arrangements for the payment to the Wales Audit Office of a fee in respect of the study. 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
Assisting Her Majesty's Chief Inspector of Education and Training in Wales with inspections of local authorities. The Auditor General for Wales shall not provide such assistance unless, before he does so, the Chief Inspector has agreed to pay the Wales Audit Office a fee.	Section 41A of the Education Act 1997
Programmes of studies relating to registered social landlords undertaken by agreement between the Welsh Ministers and the Auditor General. It shall be a term of every such programme that the Welsh Ministers must pay to the Wales Audit Office a sum in respect of the costs incurred.	Section 145C(3) of the Government of Wales Act 1998

Annex 3 – Fee scales for work undertaken at local government bodies

Unitary authorities

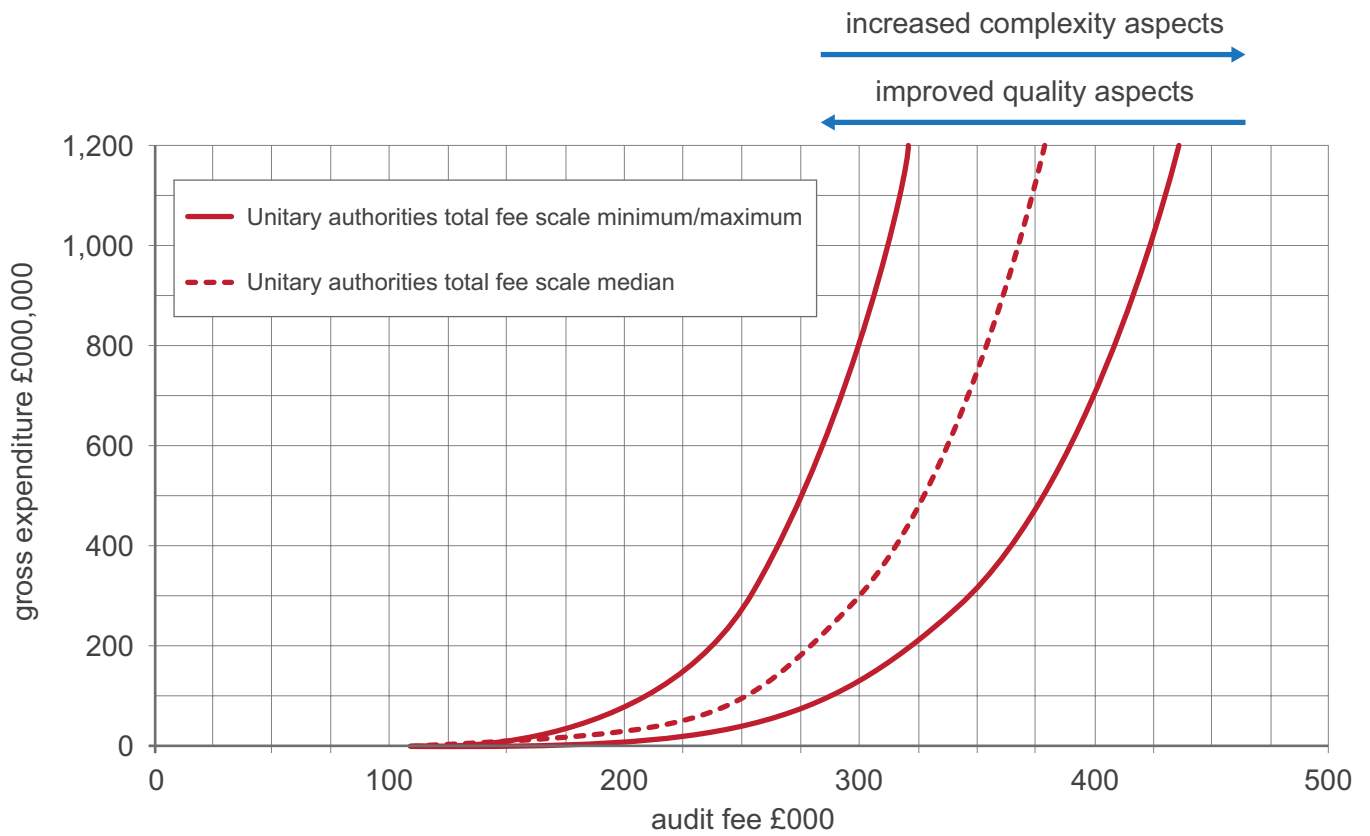
Fee scale for audit of 2016-17 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
100	118	139	160	140
200	142	167	192	168
300	158	186	214	187
400	171	201	231	202
500	181	213	245	215
600	190	224	257	225
700	198	233	268	235
800	205	242	278	243
900	212	249	287	251
1,000	218	256	295	258
1,100	224	263	303	265
1,200	229	269	310	271

Fee scale for 2017-18 improvement audits, assessments and special inspections under the Local Government (Wales) Measure 2009

All unitary authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	94	112	130	112

Graphic of total fee scale for unitary authorities



Fire and rescue authorities

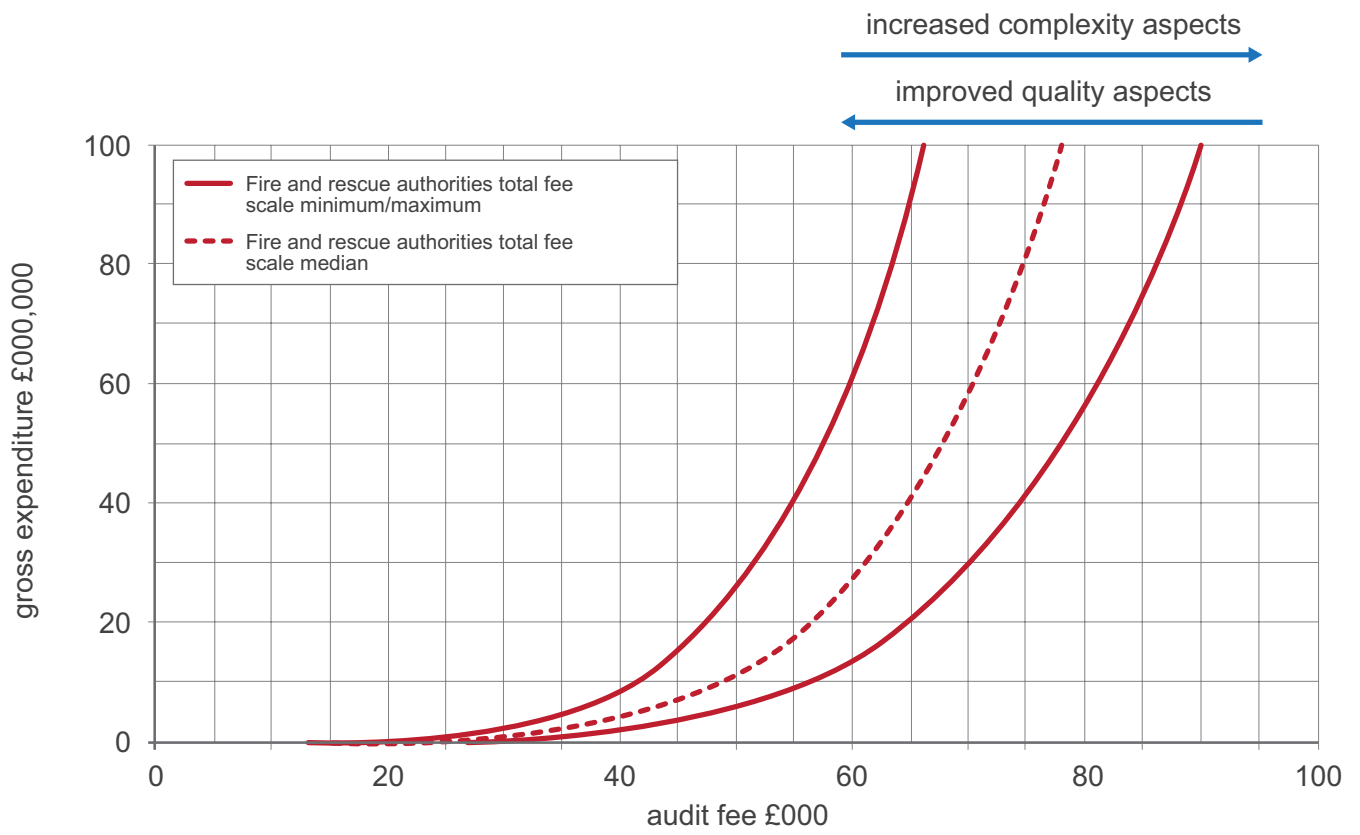
Fee scale for audit of 2016-17 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
20	35	41	47	41
40	42	49	56	49
60	46	55	63	55
80	50	59	68	59
100	53	63	72	63

Fee scale for 2016-17 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

All fire and rescue authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	13	16	18	14

Graphic of audit total fee scale for fire and rescue authorities



National park authorities

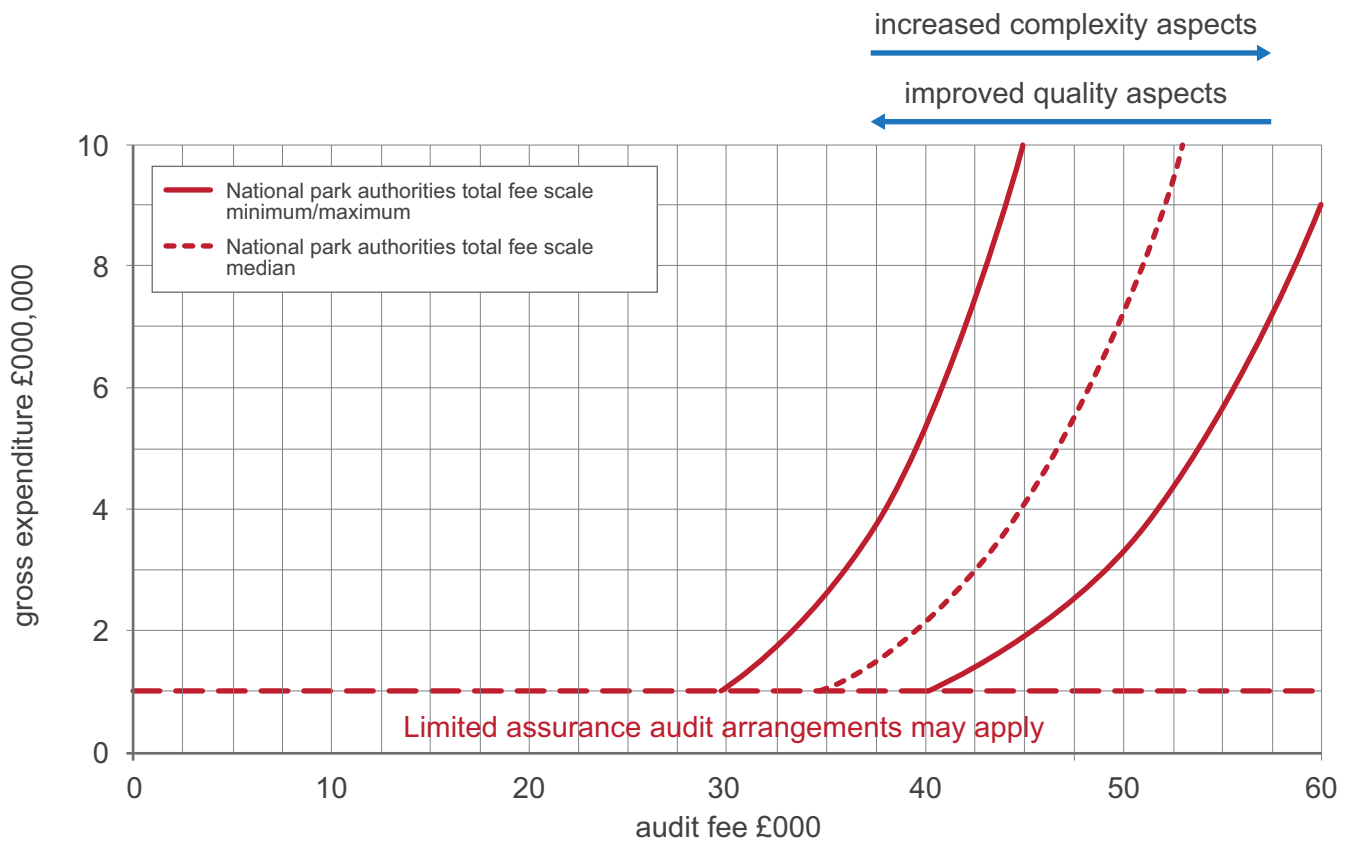
Fee scale for audit of 2016-17 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
2	21	25	29	25
4	26	30	35	31
6	29	34	39	34
8	31	37	42	37
10	33	39	45	39

Fee scale for 2016-17 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

All national park authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	12	14	17	7

Graphic of total fee scale for national park authorities



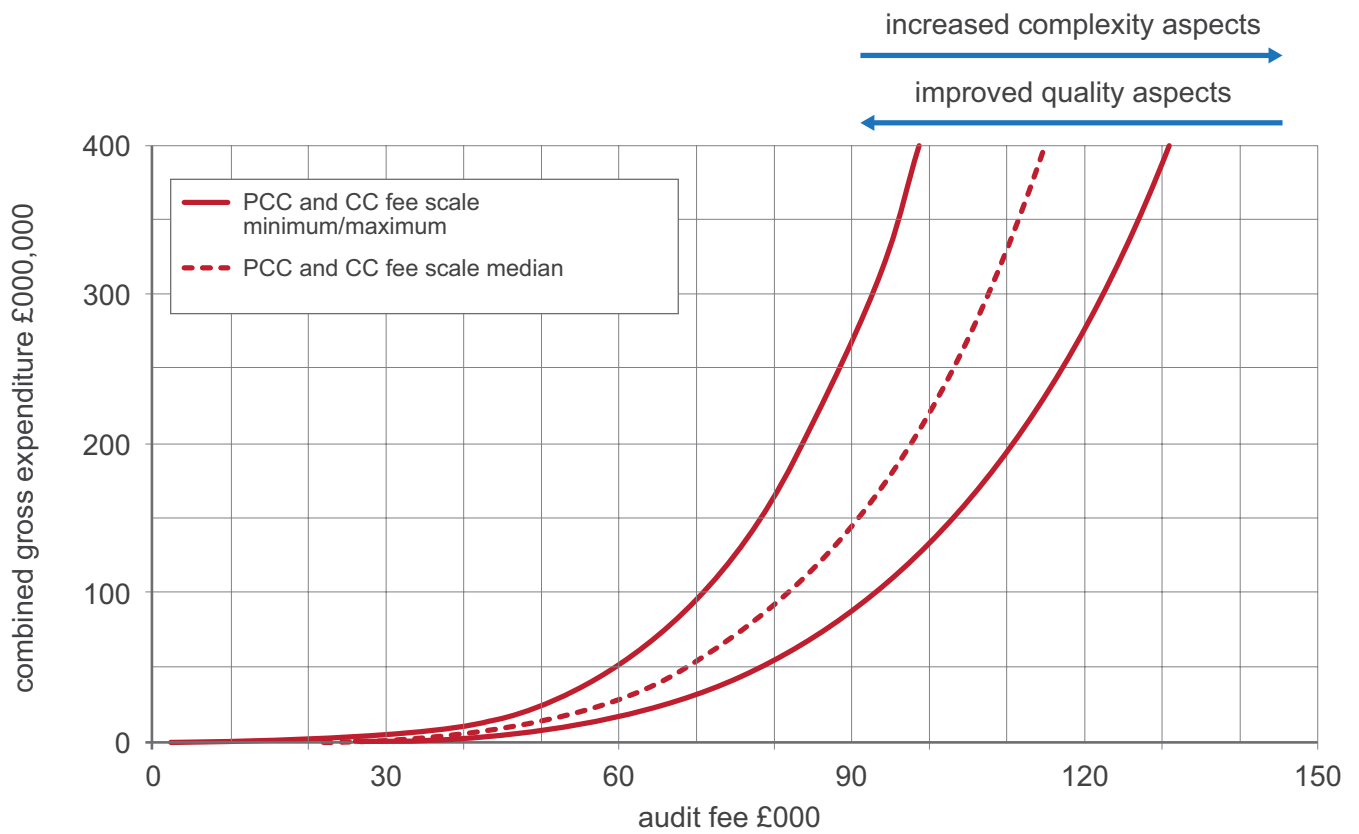
Police and crime commissioners and chief constables

Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioners (PCC) and the Chief Constables (CC). The split of the total fee between the two bodies in a particular police area will be a matter for auditors to determine, based on accounting requirements and the operational arrangements put in place by each of the bodies.

Fee scale for audit of 2016-17 accounts

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			Previous year median £000
	Minimum	Median	Maximum	
50	60	70	79	70
100	71	82	93	82
150	78	91	103	91
200	84	97	111	98
250	88	103	117	103
300	92	107	122	108
350	96	112	127	112

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



Town and community councils with annual income or expenditure under £2.5 million

Town and community councils in Wales are subject to a limited assurance audit regime. For 2016-17 we will charge for work on a time basis rather than the historical basis of a fixed fee according to expenditure/income bands. The fee rate charges are as set out in [Exhibit 1](#). The estimated impact of this switch is set out in the table below.

In circumstances where the auditor requires further evidence to properly discharge their responsibilities, including following publication of a related public interest report, additional testing will be undertaken to address the auditor's concerns.

It is emphasised that the actual charge made to any particular body will be dependent on the time actually worked on that particular audit. The ranges provided in the table below are for indicative purposes only.

Estimated time charges for audit of 2016-17 accounts of town and community councils

Annual income or expenditure (fees are payable on whichever is the higher each year)	Indicative baseline charge	Indicative upper range fee
£Nil – £99	£Nil	£Nil
£100 – £5,000	£30	£280
£5,001 – £100,000	£160	£320
£100,001 – £500,000	£200	£380
£500,001 – £2,500,000	£240	£460

Local government pension funds

Fee scale for audit of 2016-17 accounts

All pension funds	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	30	40	50	40

Fee rates for other work in local government

The audit of other types of local government body, work which goes beyond the general duties of the Auditor General, and grant certification work

Other than those types of bodies for which fee scales have been prescribed as shown above, there are a small number of other types of local government body where our prescription of the fee scale is a matter of converting the resource requirements into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 1](#). It remains the case that for audits of these bodies we apply a zero-based approach to audit planning.

For all types of local government body to meet his statutory responsibilities, it is sometimes necessary for the Auditor General to carry out work which goes beyond general duties (those set out in section 17 of the Public Audit (Wales) Act 2004). Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

Auditors may also undertake grant certification work at local government bodies on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are made on a per-hour basis and reflect the size, complexity or any particular issues in respect of the grant in question.

We are working closely with the Welsh Government and hope to be able to devise a model that focuses more on the outputs and outcomes from grant-supported activity, moving away from the traditional audit approach of checking invoices. This should provide the Welsh Government and audited bodies with a clearer understanding of the difference grant-supported activity is making, whilst also reducing the cost of grant certification work. We are piloting this approach during 2016-17 and will discuss fee implications with pilot authorities.

Estimates of the relative proportions of financial audit staff grades to be used for different types of grants work are provided below.

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement director	1 to 2	0 to 1
Audit manager	4 to 6	1 to 2
Team leader	18 to 21	12 to 16
Team member/trainee	77 to 71	87 to 81

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- LA01 National non-domestic rates return
- PEN05 Teachers' pensions return

Fee scales for work undertaken under the National Fraud Initiative (data matching)

In order to support Welsh public bodies in combating fraud, the Auditor General conducts the National Fraud Initiative (NFI) in Wales on a biennial basis. The NFI is also run in England, Scotland and Northern Ireland. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £30 million of fraud and overpayments in Wales and £1.3 billion across the UK.

The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.

Since April 2016, the National Assembly has met the costs of running the NFI through payment from the Welsh Consolidated Fund as approved through the Wales Audit Office's Estimate, so ensuring that voluntary participants are not charged a fee for participation. As required by legislation, the fees for mandatory participants are shown below.

Exhibit 2 - NFI fees

Type of body	Fee 2017-18 £
Unitary authority; police and crime commissioners and chief constables; fire and rescue authorities; NHS trusts; local health boards.	Nil
All participants may also be provided with access to the NFI Application Checker (App Check).	Nil

Mandatory participants will also be provided with access to the NFI Application Checker without charge.

Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan

Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru

Annual Report and Accounts 2015-16



The Annual Report for the year ended 31 March 2016 has been jointly prepared, and is laid before the National Assembly for Wales, by the Auditor General for Wales and the Chair of the Wales Audit Office, in accordance with Schedule 2 of the Public Audit (Wales) Act 2013 and containing matters as directed by the Treasury.

The Annual Report demonstrates that, during 2015-16:

- the exercise of the functions of both the Auditor General and the Wales Audit Office has been consistent with the Annual Plan prepared for the year under section 25 of the Public Audit (Wales) Act 2013, with no significant changes made to planned work; and
- the priorities set out in the Plan for 2015-16 have been substantively achieved.

The Accounts for the year ended 31 March 2016 have been prepared by the Auditor General for Wales as the Accounting Officer for the Wales Audit Office in accordance with Schedule 1 of the Public Audit (Wales) Act 2013 and in a form directed by the Treasury.

If you require this publication in an alternative format and/or language, or have any questions about its content, please contact us using the details below.

We treat the English and Welsh languages on an equal basis.

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Telephone 02920 320 500
Email info@audit.wales

Website www.audit.wales
Twitter @WalesAudit

© Auditor General for Wales 2016

Snapshot of the year



April

Outlined that councils need to improve their planning in order to protect their financial resilience

May

Highlighted the wider lessons that could be learned from the Welsh Government's procurement of the Superfast Cymru contract



June

Reported that waiting times for orthopaedic treatment in Wales have deteriorated, and are longer than in England and Scotland



Issued reports on the accounts of most NHS bodies in Wales

July

Concluded that the Regeneration Investment Fund for Wales cannot provide assurance that its sale of land and property achieved value for money

Raised awareness of and encouraged engagement with our work at the Royal Welsh Show



August

Held a webinar that focused on procurement fraud in the Welsh public sector

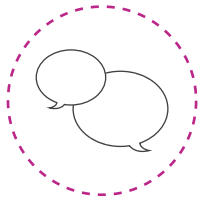
Reaccredited at Level 4 (the second highest level) of the Green Dragon Environmental Standard

September

Walked (collectively) all 870 miles of the Wales Coast Path in a 24-hour weekend window for charity

Issued reports on the accounts of most major local government bodies in Wales





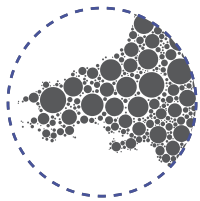
October

Recommended that Councils ensure more effective management of the services that support older people to live independently

November

Published our annual report on the progress we have made towards meeting our equality objectives

Gave our views on the extent to which all three national park authorities in Wales are delivering efficient planning services



December

Provided our analysis of the scale and nature of the funding pressures and the big issues facing public services in the coming years

January

Issued the findings of our examination of the Welsh Government's acquisition and ownership of Cardiff Airport



February

Concluded that Natural Resources Wales has made good progress towards achieving financial savings and delivering other benefits intended from its creation

Welcomed colleagues from the Children's Commissioner and the Public Services Ombudsman's offices to a workshop aimed at enhancing our working through the medium of Welsh.

March

Hosted a shared learning seminar for public bodies affected by the Well-being of Future Generations (Wales) Act 2015

Published our plan for 2016-17 including our three-year strategy and priorities, and key performance measures and targets



Contents and reader's guide

Performance Report

A review of the work of the Auditor General and Wales Audit Office in 2015-16, including an analysis of our delivery and performance, and our position at the end of the year

9 Overview

A summary of who we are, what we do, the key risks we face and how we have performed during the last year

9 Statements from the Auditor General and Chair of the Board

11 Who we are

12 What we do

13 Our aim and objectives

14 Key issues and risks that we face

15 Performance measures

19 Performance analysis

An assessment of the extent to which the programmes of work and three-year priorities set out in our 2015-16 Annual Plan have been achieved

20 Audit work at local government bodies

22 Audit work at NHS bodies

24 Audit work at central government bodies

26 Audit work for consideration by the Public Accounts Committee

28 Exchange of good practice

30 Engagement and joint working

32 Our governance and leadership

33 Our use of resources, including our sustainability report

Accountability report

Key statements and reports that enable us to meet accountability requirements and demonstrate compliance with good corporate governance

41 Corporate governance report

An explanation of the composition and organisation of our governance structures and how they support the achievement of our aim and objectives

41 Directors' report

46 Statement of Accounting Officer's responsibilities

48 Governance statement

63 Remuneration and staff report

Our remuneration policy, details of the remuneration and pension interests of members of the Board, its committees and the Management Committee, our fair pay disclosure and a report on our staffing

63 Remuneration report

72 Staff report

85 Independent auditor's report

The independent auditor's report to the National Assembly for Wales, including their opinion on the financial statements, regularity and on other matters

Financial Statements

The financial statements for the Wales Audit Office, alongside supporting and explanatory notes.

88 Statement of Comprehensive Net Expenditure

89 Statement of Financial Position

90 Statement of Cash Flows

91 Statement of Changes in Equity

92 Notes to the accounts

109 Glossary of terms

112 Appendix 1: Programmes of work delivered in 2015-16

118 Appendix 2: Progress made during the year towards achieving our three-year priorities

Performance Report

A review of the work of the Auditor General and Wales Audit Office in 2015-16, including an analysis of our delivery and performance, and our position at the end of the year

Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer

10 June 2016



Overview

Statement from the Auditor General



Our aim is to ensure that the people of Wales know whether public money is being managed wisely, and public bodies in Wales understand how to improve outcomes.

A quick glance through this report illustrates the sheer volume and range of audit work that we have delivered in 2015-16 to help us achieve this aim. Thanks to the professionalism, dedication and hard work of Wales Audit Office staff and contractors, we successfully delivered almost the entire programme of work laid out in our Plan for 2015-16, including providing opinions on the accounts of over 800 public bodies in Wales, and publishing 19 national reports.

The value of this work in terms of providing assurance, providing insight and promoting improvement has been readily confirmed by our stakeholders in a recent survey. Ninety-eight per cent of those surveyed said they have confidence in our work, and four-fifths believe our work provides useful insight and has led to improvements in the provision of public services.

Through using our unique remit to follow the public pound, our work in 2015-16 has continued to highlight the need for redesign and transformation of public services in Wales in the face of limited resource and growing demand.

And our continued emphasis on facilitating the sharing of good practice and learning through seminars and webinars to support the change process has again proved to be welcomed and highly valued.

Looking forward, the way we deliver our work over the next few years will continue to adapt and evolve, including through developing an approach to discharge my duties under the Well-being of Future Generations (Wales) Act 2015, as part of our ongoing commitment to improving the quality of life of the people of Wales and helping public bodies to succeed.

Huw Vaughan Thomas
Auditor General for Wales

Statement from the Chair



As outlined in this report, 2015-16 was an important and very productive year for the Wales Audit Office. Alongside delivering our programmes of work, the Board continued to challenge performance and is pleased with the progress made towards delivering our three-year priorities and targets.

On behalf of the Board, I would like to thank all our employees and contractors for their hard work and contribution over the last 12 months. I am always struck by their pride in and commitment to their work. I am very proud of what we have achieved.

However, like all public bodies, we need to continue to adapt, improve and become more efficient to respond to the significant challenges that lie ahead.

From 1 April 2016, a programme to facilitate transformation of the way we work, supported by approved funding from the National Assembly's Finance Committee, will commence and operate in parallel to the programmes of work undertaken as part of the annual business cycle.

Initially, we will be taking steps to enhance the impact of our work through further exploring how we can use new technology and maximising the effectiveness of our data collection, analysis and communication of findings.

We will also be increasing our focus on our workforce strategy to ensure we are able to anticipate and seamlessly respond to future political and policy developments.

These are interesting times for the Wales Audit Office and I am confident in our readiness to meet the challenges ahead.

Isobel Garner

Chair, on behalf of the Wales Audit Office

Who we are

The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector. The Public Audit (Wales) Acts 2004 and 2013, the Government of Wales Acts 1998 and 2006, alongside a range of other legislation, provide the statutory basis for the Auditor General's work.

The Auditor General is responsible for the audit of the majority of public money spent in Wales, including the funds that are voted annually by the National Assembly. Significant elements of this funding are passed by the Welsh Government to the NHS and local government in Wales.

The Wales Audit Office is a Board that employs professionally qualified staff and utilises other resources, including additional expertise from private sector accountancy firms, to enable the Auditor General to carry out his functions. The Wales Audit Office was established as a corporate body in July 2013 and employed 248 staff as of 31 March 2016.

The Wales Audit Office has a Management Committee which is responsible for directing the organisation on a day-to-day basis. Further details on the Board and Management Committee are included in the Directors' Report, Remuneration Report and Governance Statement.

The Auditor General uses the resources provided by the Wales Audit Office to independently examine whether public money in Wales is being managed wisely and is properly accounted for.

What we do

Public sector audit involves providing an opinion on the accounts and also covers issues such as:

- regularity (whether public money is being used for approved purposes);
- propriety (whether public business is being conducted appropriately); and
- value for money.

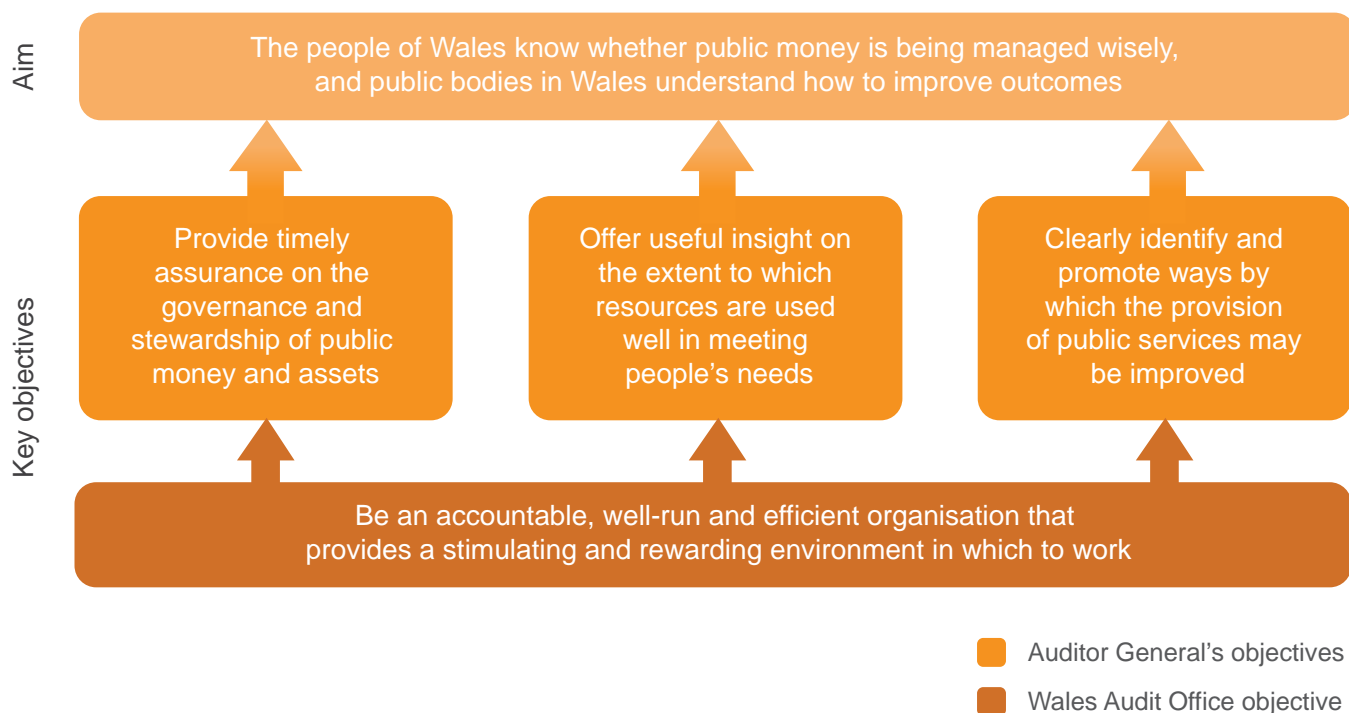
Each year the Auditor General, using resources provided by the Wales Audit Office, delivers an extensive but proportionate programme of external audit work, alongside certain other functions. The Auditor General also retains a degree of flexibility in his programme in order that he can respond swiftly and effectively to any issues we encounter through our audit work or that are brought to his attention.

The Auditor General's functions apply across different types of bodies, to examine public spending irrespective of who delivers the services.

We identify good practice from across the full breadth of the Auditor General's audit work and disseminate this through our Good Practice Exchange (a free web-based resource) and other media, including shared learning seminars and webinars.

Our [Annual Plan for 2016-17](#) provides more information on how we follow the public pound in Wales.

Our aim and objectives



Our aim is to inform the people of Wales and help public bodies in Wales succeed.

Our fourth key objective underpins the first three; in order for the Auditor General to deliver a high quality audit service, the Wales Audit Office must be a well-run organisation which delivers value for money.

The Auditor General and the Wales Audit Office jointly prepared and laid before the Assembly an [Annual Plan for the year ended 31 March 2016](#).

The Plan set out, for 2015-16, the work programmes of the Auditor General and Wales Audit Office, the resources available to the Wales Audit Office, and how those resources were to be used in order to undertake the work programmes.

Key issues and risks that we face

As outlined in greater detail in our [Annual Plan for 2016-17](#), we consider the following factors to be those that will have greatest influence over the way we deliver our work and achieve our aim and objectives over the next three years:

- We are in a period of financial constraint
- Governance arrangements are now required to have a wider scope
- The political and policy landscape continues to evolve
- We live in an increasingly networked society

In response to our operating environment, our Plan for delivering our programmes of work during 2016-17 and for the three-year period 2016-2019 is underpinned by four high-level strategic themes.

Continue to undertake our audit work with an austerity emphasis



We will continue to place increased emphasis on strengthening financial management across the Welsh public sector and improving the effectiveness and efficiency of the use of public resources and assets.

Our audit work will focus on assisting service transformation and helping public bodies cope with, and succeed despite, the impact of funding reductions.

Report more comprehensively on the effectiveness of governance arrangements



We will enhance our audit work on governance arrangements to support public bodies in meeting their responsibilities under the new legislation.

Increasingly, our consideration of financial resources, and the way in which public bodies account for their use, will be integrated with a consideration of their stewardship of human and natural resources.

Strengthen our workforce strategy so we can better respond to future developments



We will strengthen and optimise our workforce strategy to ensure we can both meet current demand and are able to anticipate and respond to future developments.

Our emphasis will be on having the right number and a diverse mix of people, with the right skills, knowledge and experience, in the right place, at the right time and at the right cost.

Make more effective use of data and information technology



We will undertake audit work focussed on audited bodies' capacity to exploit digital transformation and their digital risk awareness.

We will also seek to take steps to enhance the impact of our work through further exploring new technology and maximising the effectiveness of our data collection, analysis and communication findings.

An account of risk management in 2015-16, alongside a description of the principal risks and uncertainties we face, is provided in the [Governance Statement](#).

Performance measures

A framework of key performance measures, centred on seven themes and questions about our activities, was included in our [Annual Plan for 2015-16](#). A suite of targets was also developed with reference to levels of performance at the end of 2014-15 and appropriate benchmarks.

Over the course of 2015-16 we used a combination of quantitative and qualitative methods to measure, report and reflect on our performance and risks. This included quarterly reporting to our Management Committee and Board on progress made in achieving our priorities and targets. Our suite of performance measure targets was also subject to further scrutiny and refinement during the year to ensure they remained suitably challenging but achievable within the specified timescales.

Overall, in 2015-16 we achieved our targets for 21 of the 35 performance measures, and were close to achieving our targets for another four measures. For the remaining ten measures, the three that require the most significant improvement in performance in 2016-17 are all related to the way we are managing our impact on the environment.

Impact

To what extent is our work informing the people of Wales, helping public bodies in Wales to succeed, and valued by our stakeholders?



Achieved our target
 Close to achieving our target
 Improvement required
 Significant improvement required

Delivery

Are we delivering our audits on time and to the required quality and professional standards?



100%

of requests to draw funds from the WCF were **processed within 24 hours**



92%

of audit products were **delivered on time**



100%

of audits were delivered in accordance with **quality standards**



24

good practice products were delivered



19

National reports were published



Leadership

Are our governance and leadership arrangements operating effectively?



97%

stakeholders said they have **confidence in our work**



98%

staff feel that their **performance is evaluated fairly**



69%

staff feel **supported** to try new ideas and ways of working



75%

of staff feel **trusted** to carry out their job **effectively**



64%

of **staff feel engaged** with our strategic approach



Achieved our target



Close to achieving our target



Improvement required



Significant improvement required

Financial

How well are we managing our finances and assets?



£3,228

estate cost per whole-time equivalent member of staff



£1.2m

of cost savings generated throughout the business



6.9%

variance between actual and **budgeted expenditure**



6.7%

variance between actual and **budgeted income**



Only £59k

of aged debts over 60 days



Social

How well are we promoting and supporting equality, well-being and learning?



80%

of staff feel that they are able to **access appropriate learning opportunities**



100%

of outputs were compliant with our Welsh language scheme



69%

of staff feel that they are able to strike a **good balance between work and private life**



7.3

days, on average, were lost through sickness per member of staff



66%

of staff feel that they are treated **fairly, with respect and are valued**



Achieved our target



Close to achieving our target



Improvement required



Significant improvement required

Environmental

How well are we managing our impact on the environment?



Accredited at
Level 4
of Green Dragon
Environmental
Standard



Produced
555
tonnes of CO₂
equivalent emissions



54.6%
of our waste
was reused,
recycled or composted



Consumed
2,150
reams of **paper**



Produced
86.1
tonnes of **waste**



Communication

How well are we raising awareness of and encouraging engagement with our work?



1,143
people **attended**
our shared
learning seminars



97%
of media articles published
about our work with **positive**
or **neutral sentiment**



Average Klout
score of
50



Staff were **invited to**
present audit learning
at **30** externally
hosted events



198k
website page
views



Achieved our target



Close to achieving our target



Improvement required



Significant improvement required

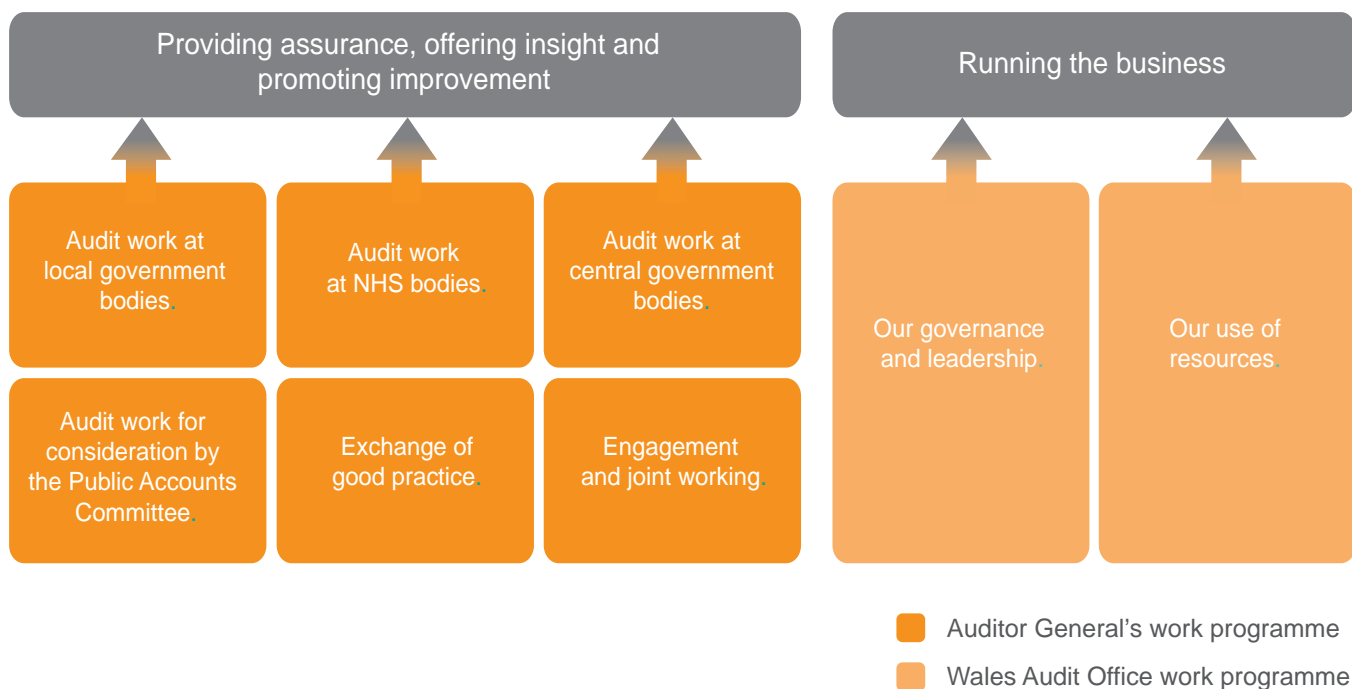
Performance analysis

In this section we provide an assessment of the extent to which the programmes of work and three-year priorities set out in our [2015-16 Annual Plan](#) have been achieved, including through the use of case study examples.

This section should be read in conjunction with:

- Appendix 1, which provides more detail on the Auditor General's programme of audit work delivered in 2015-16; and
- Appendix 2, which provides commentary on the progress we have made towards achieving our three-year priorities.

Consistent with our Plan, our analysis is divided into eight sections which are aligned with our objectives. The first six sections relate to the Auditor General's work programme. The remaining two sections relate to the Wales Audit Office's work programme.



In 2015-16, we successfully delivered almost the entire programme of work laid out in our Annual Plan for the year. And we are on track to deliver (and in some cases have already completed the necessary work on) all of our three-year priorities.

Audit work at local government bodies

The Auditor General's programme of work in local government covers a broad range of bodies, including unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, local government pension funds and town and community councils.

During 2015-16, our work on audits of accounts, certification of grant claims and returns, improvement audits and assessments, and local government studies, was completed in alignment with our Plan. Audit opinions on the 2014-15 accounts of all principal local government bodies were provided by the statutory deadline.

There are a number of ongoing local government studies which are due for completion in 2016-17.



Issued nearly
800
audit opinions
on the accounts of
local government
bodies

Delivered annual
improvement
assessments at all
28
improvement
authorities

Completed
7
local government
studies and
summary reports

Certified 25
grant schemes
worth approaching
£3
billion

All
of our three-year
priorities for local
government work
are currently
on track

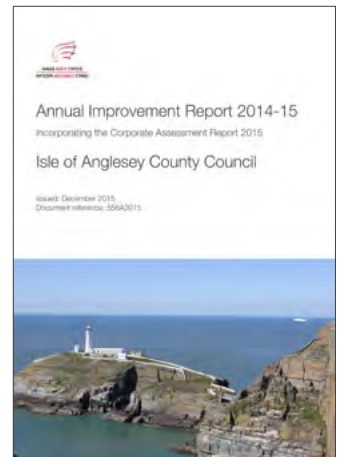
Case study: Cardiff and Isle of Anglesey corporate assessments

As part of our 2015-16 programme of local government audit work, we undertook a corporate assessment at the Isle of Anglesey County Council and a follow-on to a previous corporate assessment at the City of Cardiff Council.

In our 2014 corporate assessment of the City of Cardiff Council, we concluded that 'Fragmented leadership and management have meant that weak performance in key service areas has not improved.' A year later, we undertook the follow-on work to review progress, and concluded that 'The Council had put in place better arrangements to support improvement and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes.' The Auditor General also made a specific recommendation that 'The Council must ensure that it addresses the proposals for improvement as set out in this report to deliver improved outcomes within the next 12 months.'

The corporate assessment of the Isle of Anglesey County Council formed part of our cyclical programme and was not planned in relation to a perceived risk. Like most councils, Anglesey faces a number of significant challenges. However, most of the foundations of governance necessary to tackle these challenges are now as secure in Anglesey as they are elsewhere in Wales. Welsh Government intervention, which ended formally in May 2013, had supported the Council in turning around its fortunes.

Both councils have responded positively to our assessments, acknowledging the need to address the points raised by putting in place an action plan or Statement of Action. The Chief Executive of Cardiff reported to the Council's Cabinet that the Council strongly welcomes the Auditor General's assessment of progress over the last two years. The Isle of Anglesey has consistently reported in stakeholder surveys the beneficial impact of its regular dialogue with the Wales Audit Office team.



Audit work at NHS bodies

The Auditor General's work across NHS Wales covers all seven local health boards and the three NHS Trusts, as well as the work of the Welsh Government's Health and Social Services Department.

During 2015-16, the Auditor General provided his audit opinions on the 2014-15 accounts of each NHS body, and reported publicly on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources, including through the publishing of a comparative picture of orthopaedic services report for each local health board. This work was delivered in line with the timetable set out in our Plan.

As part of a cyclical programme of health studies, work was carried out in accordance with our 2015-16 Plan on the studies listed in Appendix 1.



Issued reports on
the accounts of all

10

local health
boards and
NHS trusts

Delivered annual
**structured
assessments**

and local
performance
audit work

Completed
6
health studies
and commenced
work on two
further studies

Established an
Expert Panel
including academics
and health
professionals,
to advise on our
audit programme

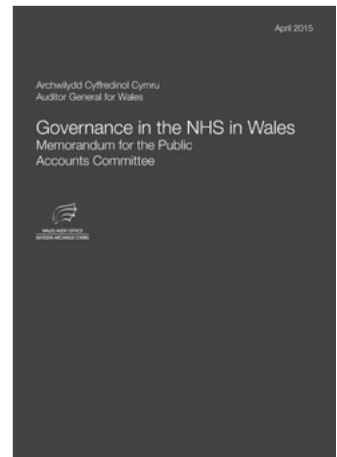
All
of our three-year
priorities for NHS
audit work are
either complete
or on track

Case study: NHS governance audit work

As part of its inquiry into governance arrangements at Betsi Cadwaladr University Health Board, the National Assembly's Public Accounts Committee took evidence during 2015 on a number of wider aspects of governance in NHS Wales. To support the Committee's inquiry, the Auditor General prepared a memorandum that provided a comprehensive overview of the governance arrangements that exist in NHS Wales, together with a commentary on how those arrangements were working in practice, based on the findings of our annual structured assessments.

Through the memorandum, we brought together a range of information on NHS governance arrangements that had previously been held in a number of different places. Alongside informing the work of the Public Accounts Committee, the memorandum has been used by the NHS Board Secretary Group to inform their work with Chairs of NHS bodies on improving governance. Board Secretaries also drew upon the memorandum when preparing their response to the recent NHS Wales Green paper on quality and governance.

More broadly, the findings from our structured assessment work at NHS bodies continue to allow us to contribute effectively to NHS Escalation and Intervention Round Table discussions, and to inform the Welsh Government's scrutiny of NHS bodies' draft integrated medium-term plans (IMTPs). The Welsh Government has included a whole day session with staff from the Wales Audit Office in its programme for the detailed annual review of IMTPs, thereby allowing the views of Welsh Government officials on the draft plans to be informed by relevant audit intelligence relating to the wider organisational effectiveness of NHS bodies.



Audit work at central government bodies

The central government sector in Wales covers a diverse range of public bodies, including the Welsh Government and its sponsored bodies, the offices of various statutory commissioners, inspectors and regulators, and the National Assembly Commission. In 2015-16 the Auditor General provided an annual opinion on the 2014-15 accounts of the listed central government bodies, consistent with our Plan.

Performance audit work was also conducted within this sector, as part of the Auditor General's programme of value for money studies.



Approved around
£1 billion
of payments out
of the Welsh
Consolidated
Fund every month

Provided opinions
on the accounts
of the Welsh
Government and
11
sponsored bodies

Certified European
structural fund
claims
worth around
£300 million

Facilitated a
good practice
workshop
with Chairs of Audit
and Risk Assurance
Committees and
Senior Finance
Officers

All
of our three-year
priorities for
central
government work
are currently
on track

Case study: Supporting good governance in the central government sector

The central government sector in Wales has been subject to some of the more significant budget reductions across the public sector. When combined with the relatively small size of many central government bodies, the budgetary reductions limit the resource available to develop good practice in governance and reporting. Although the Auditor General's regular audit work at central government bodies in Wales is usually limited to the audit of their financial statements, it is his intention to support bodies in this sector by facilitating six-monthly workshops with Chairs of Audit and Risk Assurance Committees (ARACs) and Senior Finance Officers to provide a forum for sharing of information and good practice.

The first of these workshops was held in February 2016, where participants discussed changes to annual reporting requirements, and good practice in developing board assurance frameworks. For each of these topics, a plenary session was followed by workshop discussion of challenges and practices, concluding with feedback and sharing of key issues and actions.

The positive feedback received from the day confirmed the enthusiasm for further sessions. The next one, planned for October 2016, aims to revisit and reflect on annual reporting, and to look at ARAC efficiency. The formal and informal contacts made amongst ARAC Chairs on the day should facilitate information sharing and discussions on an ongoing basis; there is often nothing better than 'a good old chat'.



Audit work for consideration by the Public Accounts Committee

This programme of audit work includes value for money examinations, the preparation of summary reports of the findings from audit work across multiple NHS, central government and/or local government bodies, and examinations undertaken in response to issues of public concern identified through our audit work or raised with the Auditor General.

The outputs for 2015-16, which have been delivered consistently with our Plan, have supported the work of the National Assembly's Public Accounts Committee and other Assembly committees.

As outlined in our Plan, in early 2015-16 the Auditor General considered and consulted on potential topic areas for future value for money studies. As a result, our ongoing work includes several new pieces of work added to our programme that got substantively underway in 2015-16.

During the year, we also undertook work to consider the Welsh Government's responses to previous Auditor General and Public Accounts Committee recommendations across a range of topics. That audit work supported our input to the Public Accounts Committee's [legacy report](#) on its own work during the fourth Assembly term and will inform any follow-up work by the new Public Accounts Committee in the fifth Assembly.



Completed

12

value for money studies, summary reports or reactive examinations

15

ongoing value for money examinations, summary reports or reactive examinations

Supported

35

meetings of the Public Accounts Committee

Established a new investigative studies team to strengthen our forensic audit capacity

All

of our three-year priorities for Public Accounts Committee audit work are either complete or on track

Case study: Regeneration Investment Fund for Wales

In July 2015, the Auditor General published his report on a study of the £21 million sale of public land and property assets by the Regeneration Investment Fund for Wales (RIFW), an arms-length body of the Welsh Government. During the study we examined RIFW's aims, governance and operation, including the effectiveness of the Welsh Government's oversight. Many of our recommendations are of wider application to arms-length operations and the maintenance of good governance.

We concluded that, due to flaws in the way RIFW was established, in the selection of assets and also in the sale process itself, neither RIFW nor the Welsh Government were able to demonstrate that value for money was achieved from the portfolio sale transaction.

Publication of the report aroused considerable public, political and media interest, including a documentary by BBC Wales. Following consideration of our report, the National Assembly's Public Accounts Committee undertook its own inquiry into RIFW during autumn 2015 and produced its own report in January 2016. The Committee concluded that the issues considered during the inquiry were some of the most concerning and complex that it had come across during the fourth Assembly term.

In [its report](#), the Committee concurred with the Auditor General's findings and also reflected subsequent events, including evidence from onward sales of the assets by the purchaser which '...demonstrate convincingly that the sale did not represent good value for money for the taxpayer – it appears that tens of millions of pounds could and should have been generated for investment in regeneration projects across Wales'. The Committee's findings prompted an apology from the First Minister to the National Assembly, and led to a lengthy plenary debate. In March 2016, the Welsh Government announced that it is taking legal action against the private-sector company that had advised the RIFW Board on the terms of the sale.



Exchange of good practice

One of the two main strands of our good practice work is the provision of freely available **online resources** that enable the public, service users, service providers, policy makers and decision makers to access information that will leave them better informed. Our other strand of activity involves facilitating conversations where the learning from comparative successes and failures is shared face-to-face.

During 2015-16, a broad range of outputs were delivered from this programme, either consistent with or adapted from our original Plan, and with particular emphasis on promoting the sharing of information across organisational, geographical and international boundaries.



Prepared a
good practice
guide
on the continued
independence
of older people

24
shared learning
seminars/webinars,
which were
attended by over
1,100
people

93%
of delegates
providing feedback
rated our shared
learning seminars
as useful or
very useful

83%
of stakeholders
believe our good
practice work
has benefited
public services

All
of our three-year
priorities for
good practice
work are currently
on track



Case study: Outcomes achieved through exchanging good practice

Through our shared learning seminars and webinars we encourage public service providers to identify and develop new and better ways of working. However, improvements and innovations can take time to translate into outcomes for service users. The examples below demonstrate some of the positive impacts that the transfer of knowledge from previous years' seminars have had during 2015-16.

- Wrexham town centre now has a fully operational alcohol treatment and welfare centre named 'Hafan y Dref'. The service was developed after Wrexham Council officers attended our [Adopting Preventative Approaches seminar](#) in April 2014, where the Cardiff Alcohol Treatment centre was showcased. The Hafan y Dref centre is able to triage and treat individuals at its site in the town centre, thereby reducing the burdens placed on and costs associated with emergency services.
- In 2014, North Wales Fire and Rescue Service were looking for opportunities to enhance their project management and associated knowledge and skills. By attending our [Programme and Project Management seminar](#) in September 2014, the North Wales Fire and Rescue Service learned about Conwy Council's approach to project management. The two organisations have since developed a closer working relationship and are now sharing training approaches.
- The Colwyn Bay Health Precinct Project was showcased at our [Housing and Sport seminar](#) in March 2015. Health and local government colleagues who met at the seminar developed the idea of relocating the Precinct project to within a local authority leisure centre. The subsequent relocation has resulted in improved awareness of the potential for leisure activities to be used to treat long term chronic conditions.
- Since our [Making Better Use of Public Assets seminar](#) in January 2015, Indycube, a social enterprise which provides opportunities for freelancers and micro-businesses to work alongside others while staying close to home, now operates in partnership with over a dozen public sector bodies across Wales, delivering a small revenue stream in return for the provision of working spaces.

'Very well organised. Everything flowed very well.
Networking before and after was really useful.'

'The speakers were engaging, informative and enthusiastic.
It was fantastic to have service users involved at all levels
during the seminar. They gave the most important insight
to the way services are delivered and received.'

Feedback from people that attended our continued independence
of older people shared learning seminar

Engagement and joint working

Over the reporting period, the Auditor General and Wales Audit Office have continued to exercise their commitment to effective stakeholder engagement to inform the development, maximise the relevance, and extend the reach and impact of the Auditor General's work. Consistent with our Plan, we have also worked closely with the other UK audit agencies and with the other main external review bodies in Wales to enhance the collective impact of our work, and have undertaken a small amount of commissioned audit work.

The Wales Audit Office is able to make arrangements with certain types of bodies for it or the Auditor General to provide services to, or to exercise the functions of those bodies. But, we are mindful that all such activities should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.



Worked with our partners to expand the information used in the National Fraud Initiative

data matching

exercise

Active member of

10

key external working groups and an observer on nine other groups

Audited

£250 million

of European funds used to support farmers and agriculture across Wales

66%

of stakeholders believe we work well with other external review bodies

All

of our three-year priorities for engagement and joint working are either complete or currently on track

Case study: Audit of the European agricultural funds

During 2015-16, the Auditor General audited approximately €318 million (£250 million) of European funds claimed by the Welsh Government to support farmers and agriculture across Wales.

Using those funds, the Welsh Government makes payments to farmers to support them in keeping their land in good agricultural and environmental condition and participating in other projects to support the delivery of the Wales Rural Development Plan. In addition, payments are made to rural businesses to support other elements of the Plan, such as the processing, marketing and supply of agricultural products.

The approach we apply to this work is prescribed by the European Commission, and undertaken by a consortium of UK auditors including the National Audit Office, the Northern Ireland Audit Office and Audit Scotland.

We are required to verify the work of Welsh Government inspectors, who physically confirm the agricultural information underpinning the claims from applicants for the funding. The types of task involved include assuring the size of a field, confirming that a woodland exists, or that a particular piece of equipment is being used. The work involves our auditors analysing satellite maps, visiting agricultural businesses and walking agricultural land across the length and breadth of Wales to verify the inspector's conclusions – quite literally 'field work'.

Through our audit work we identified a number of minor areas for improvement, but overall we were able to conclude that the expenditure was materially correct and that the controls in place at the Welsh Government are working well.



Our governance and leadership

As prescribed by the Public Audit (Wales) Act 2013, we are in the unique position of having not only non-executive and executive members of the Wales Audit Office Board, but also employee elected members to provide an extra dimension of insight and experience. Our governance arrangements provide us with a real opportunity to further develop and progress as a business.

The Wales Audit Office also has a senior management structure which is designed to provide clear lines of reporting and accountability, and to enable the Auditor General's work to inform the public and influence public service delivery in the most efficient and effective way.

An outline of the control structure of the Wales Audit Office, accounts of corporate governance and risk management for the year, and a description of the principal risks and uncertainties we faced in 2015-16, is provided in the [Governance Statement](#).

Further information on membership of the Board and the Management Committee during 2015-16 is provided in the [Directors' Report](#).

83%

of stakeholders believe the Wales Audit Office to be a well-run organisation

‘The Wales Audit Office is a professional-looking organisation with good communications and some very good people’

‘The Wales Audit Office is open, accessible and easy to deal with’

Feedback received through our stakeholder survey

Our use of resources

We have been working hard to embed the principles of sustainable development in the way we run our business, and in the way we resource the Auditor General's audit work, for a number of years. Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Financial management and efficiencies

In these times of financial restraint, robust financial management and cost efficiency remains a priority at the Wales Audit Office. We reduced our net operating expenditure when compared to our Estimate by almost £0.5 million (around seven per cent) in 2015-16. We did not need to call upon a £0.2 million general contingency held within the approved budget, which will be returned to the Welsh Consolidated Fund.

Our Estimate for 2015-16 included a savings target of £0.8 million for the year. This target was achieved, and a further £0.5 million was generated through careful management of spending, staff vacancies and our use of contractors, which in turn significantly reduced our VAT costs.

A new financial audit information management system (Insight) was rolled out in autumn 2015. The project was managed within time and budget and means we have:

- delivered our primary objective of securing business continuity of vital IT systems;
- rationalised our systems by using Insight for time recording as well as our financial audit platform; and
- achieved a 60 per cent reduction in annual maintenance and support costs for these systems; a saving of £48,000 annually.

Other efficiency improvements in a range of areas were made during the year, such as introducing:

- an online expenses system, seeking to increase automation and improve management information whilst reducing non-productive time;
- an online recruitment system, seeking to modernise the recruitment process and reduce time-intensive administration; and
- improved video conference facilities running from staff laptops to help reduce mileage and travel time.

The funding regime governing the Wales Audit Office is complex, restrictive and resource intensive. We welcome the National Assembly Finance Committee's commitment¹ to secure more streamlined arrangements for administering fees, which we believe will lead to greater operational cost efficiency and a reduced transaction burden on our audited bodies.

¹ National Assembly for Wales Finance Committee Fourth Assembly Legacy Report

Quality of our work

The quality of our work is of paramount importance to us and our stakeholders.

The [Code of Audit Practice](#), alongside a Statement of Practice for local government improvement audit, assessment and special inspection functions, prescribe the way in which the Auditor General's audit and certain other functions are to be exercised. Both documents are designed to complement International Standards on Auditing and embody best professional practice.

A [Transparency Report for 2015](#), which provides more detail on how the Wales Audit Office is meeting high standards in the way it works and in the quality of its work, is available on our website; a similar report for 2015-16 will be published later in 2016.

Recruitment, trainee scheme and work experience

As a professional audit body and an accredited training provider with three professional accountancy bodies, the Wales Audit Office is committed to a rolling programme of trainee recruitment. Through our annual recruitment campaigns we aim to attract the highest possible calibre of candidate.

During the 2015-16 financial year, 14 trainees successfully moved on to the next stages of their studies, collectively achieving a 91 per cent first-time pass rate for examinations with the Institute of Chartered Accountants in England and Wales (ICAEW).

In addition to their professional studies, we provide our trainees with bespoke training and relevant work experience. During their training over four years, they spend time working with various audit teams and make a key contribution to our overall success.

We also, through our links with Careers Wales and local schools and universities, offer work experience opportunities in the Wales Audit Office. During 2015-16, six students undertook work placements with us.

Learning and development

We continue to invest in staff learning and development to support our staff in the delivery of their work. In 2015-16, the average amount of time spent per employee on a range of learning and development activities was 9.3 days. Some of the training was designed and delivered in-house, and where appropriate and cost-effective, external training support was also commissioned to deliver training to our bespoke requirements.

An electronic evaluation form enables us to quickly capture outcomes and then measure the success and impact of the training courses. Ninety-seven per cent of staff felt that the courses they attended in 2015-16 were effective in helping them meet their objectives.



Promoting use of the Welsh language

The Wales Audit Office is committed to, and takes pride in, providing a bilingual service. Our [Welsh Language Scheme](#) forms the basis for our approach and highlights our determination to treat the English and Welsh languages on an equal basis. Our public documents are available in both English and Welsh, we have a fully bilingual website, and we communicate with the public, audited bodies and the media in both languages.

Our latest annual report on progress made towards implementing our Welsh Language Scheme is available on our website.

Employee well-being

We are committed to encouraging a healthy lifestyle and a good work-life balance amongst our staff. We also want our staff to feel valued and fully supported when they are experiencing difficulties, irrespective of whether or not there is an impact on their ability to undertake their role.

Our well-being policy is supplemented by guidance to support our commitments and ensure any staff health and well-being issues are proactively and sensitively identified and managed. We also actively promote and support staff emotional and physical health, and their wellbeing, including through an annual programme of events.

In addition, an employee assistance programme is available via either a 24-hour telephone service or through an online facility. The employee assistance programme provides staff with professional advice and emotional support on a range of matters.

We closely monitor rates of sickness absence and have in place a range of mechanisms for supporting successful return to work. An average of 7.3 days per employee were lost to sickness absence during the reporting year ending 31 March 2016. We are working to reduce this to 6.5 days.

Equality and human rights

The Auditor General for Wales and Wales Audit Office are required to follow the framework of protection against discrimination, harassment and victimisation and the public sector equality duties brought in by the Equality Act 2010.

We also have a responsibility to uphold the conventions set out in the Human Rights Act 1998. We are 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 we fully support the rights of people to be treated with dignity and respect.

Our [Strategic Equality Plan](#) outlines our continued commitment to equality and our related objectives. Our annual reports on progress made towards delivering our equality objectives are available on our website.

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, participating in conservation projects and the administration of public events.

In addition, a charity is chosen each year by staff vote to be the focus for a range of fundraising activities and opportunities for learning. Staff chose the charity Crossroads, which is part of the Carers Trust, as the focus for their fundraising activities in 2015-16. Over the course of the year, our staff held a number of fundraising events in their own time:

- Wales Audit Office colleagues were among the 15,000 riders on the gruelling 140 km and 50 km courses at the inaugural Velothon Wales, which took place on Sunday 14 June 2015.
- On the weekend of 12 to 13 September 2015, a large number of Wales Audit Office staff completed 'the audit trail', where they collectively walked all 870 miles of the Wales Coast Path in a 24-hour window.
- A number of other events were held, including cake sales, raffles, a quiz night and a barbecue night.

In total, staff again raised over £8,000 for the charity. For 2016-17, CDH UK will be the staff-chosen focus for fundraising activities.





Environmental stewardship²

We were re-accredited for 2015-16 at Level 4 (the second highest level) of the Green Dragon Environmental Standard, demonstrating our ongoing commitment to effective environmental management. We are now working towards achieving Level 5 (the highest level) during 2016-17.

Our CO₂ equivalent emissions reduced by around two per cent when compared to the previous year and we made further investment in our video-conferencing facilities, as part of our ongoing commitment to support flexible working and to reduce unnecessary travel and associated costs.

Our production of waste slightly increased in 2015-16, due to us rationalising our storage and arranging for redundant or inoperable ICT, furniture and equipment to be collected for reuse or recycling. In the process, we generated some income and reduced our storage costs.

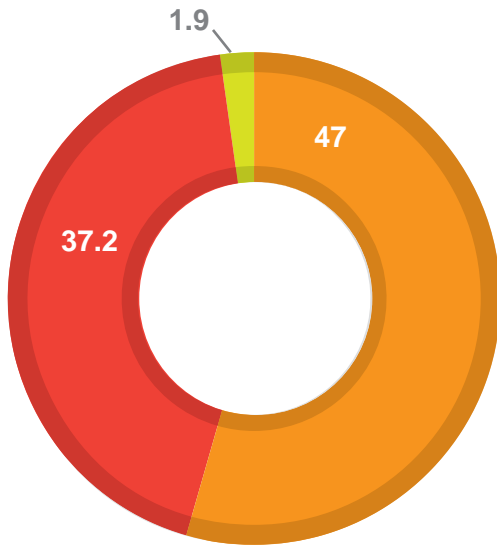
Fifty-five per cent of our waste in 2015-16 was reused, recycled or composted – a significant improvement on the 41 per cent in the previous year. We are committed to further improvement on this figure, as demonstrated in our Annual Plan for 2016-17, where we have retained our targets of 60 per cent in 2016-17 and 70 per cent by 2018.

Paper use and water consumption were reduced in 2015-16, and we improved the overall efficiency of our use of office space by five per cent. We have secured new premises in North Wales for 2016; this move will help us to reduce our overall costs, ensure better use of office space, and improve our environmental performance.

Following advice by our environmental auditor, Green Dragon, and with support from the environmental charity Waste and Resources Action Programme (WRAP), we undertook a review of our processes for measuring and reporting on our waste management. From 2016-17 onwards we will move to using the WRAP Business Waste Weights Calculator tool to provide a more accurate measurement of our levels of waste, and will use the tool to recalculate previous data and establish a revised baseline and targets.

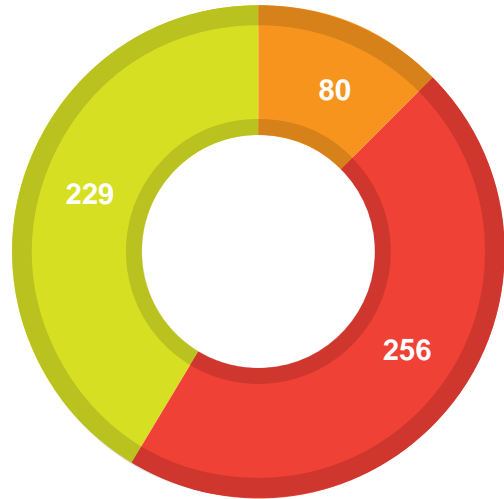
² Prepared in accordance with HM Treasury Public Sector Annual Reports Sustainability Reporting Guidance 2015-16

Waste management



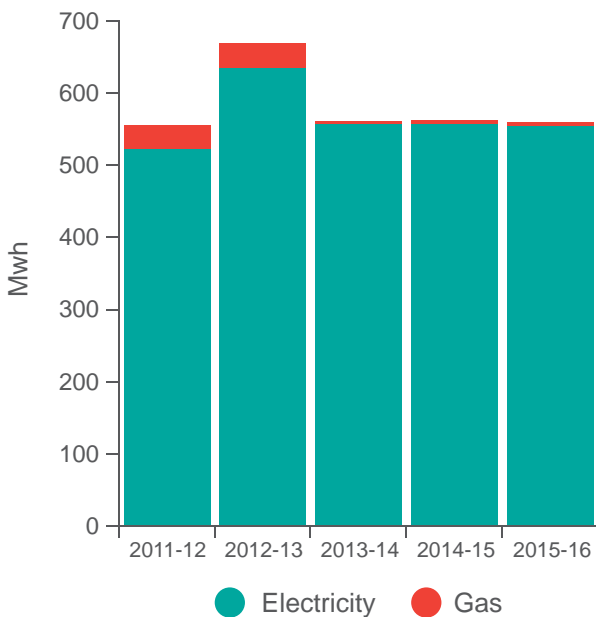
- Reused, recycled or composted (tonnes)
- Landfill (tonnes)
- Hazardous (tonnes)

Greenhouse gas emissions

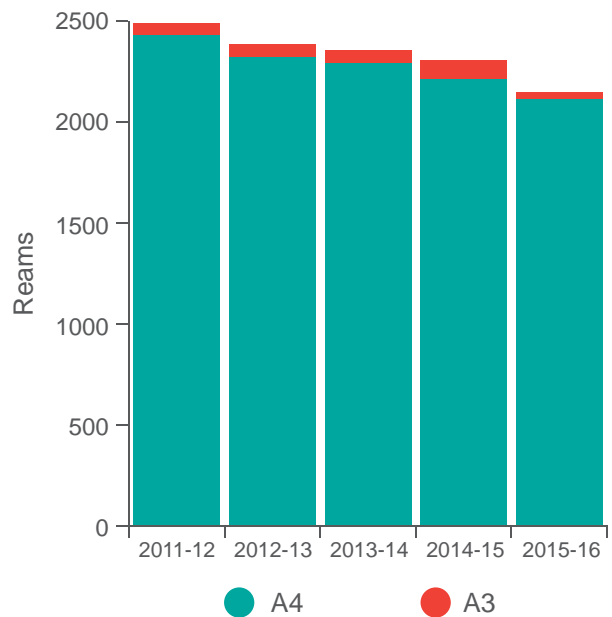


- Scope 1 - direct CO₂ equivalent emissions from sources that we own or control (tonnes)
- Scope 2 - indirect CO₂ emissions from consumption of purchased electricity (tonnes)
- Scope 3 - other indirect emissions as a consequence of our activities (tonnes)

Energy consumption



Paper consumption



	2015-16	2014-15	2013-14	2012-13
Environmental management				
Level of Green Dragon accreditation	4	4	4	4
Finite resource consumption³				
Water consumption m ³	2,756	2,760	2,351	2,322
Water consumption m ³ per WTE	10.5	12.0	10.1	9.9
Water supply costs £	6,280	4,754	4,348	3,336
Paper consumption in reams	2,150	2,305	2,325	2,385
Paper supply costs £	5,609	6,349	6,426	6,112
Waste management⁴				
Total waste tonnes	86.1	66.5	65.8	86.0
Reused, recycled or composted	47.0	27.4	26.2	26.9
ICT waste recycled and reused (externally)	3.5	0	0	0
Furniture and equipment (externally)	13.0	0	0	0
Mixed recycling, paper, food waste, garden	30.5	27.4	26.2	26.9
Landfill	37.2	39.1	39.2	59.2
Hazardous	1.9	0	.4	0
Reused, recycled, composted as % of total waste ⁵	54.6	41.1	39.8	31.2
Total disposal costs £	16,400	7,337	6,229	8,586
Greenhouse gas emissions⁶				
Total emissions tonnes CO ₂	555.6	563.1	539.5	551.6
Attributable to business travel	269.6	275.7	252.1	251.8
By car	230.1	239.1	231.2	235.9
By rail and air	39.5	36.6	20.9	16.0
Attributable to energy consumption	261.6	263.3	261.8	299.8
Electricity	256.1	257.7	257.5	293.4
Gas	5.5	5.5	4.3	6.4
Attributable to other ⁷	24.3	24.1	25.6	n/a
Total expenditure on business travel £000 ⁸	1,258	1,214	1,173	1,142
Cost per WTE of business travel £	4,972	5,037	4,827	5,053
Total energy expenditure £	64,394	63,119	56,556	69,874
Efficiency of estate				
Cost per WTE £ ⁹	3,228	3,397	3,431	3,186
Cost efficiency ¹⁰ £ per m ²	300	278	285	265
Space efficiency m ² per WTE ¹¹	10.7	12.2	12.0	12.0

3 2014-15 water consumption and supply cost figures restated. Good and best practice for water usage within an office is considered to be 4 m³ to 6 m³ and ≤4 m³ respectively per Whole-Time-Equivalent (WTE) per annum (**Greening Government Commitment targets**). However, we do not currently include office visitors in our calculation which is likely to have a substantial impact on our figures due to the number of shared learning events held at our Cardiff headquarters.

4 Calculated using appropriate WRAP conversion factors, with some previous year's figures restated.

5 Seventy-five per cent for the Welsh Government in 2014-15 (**State of the Estate Report 2014-15**).

6 Calculated in accordance with **DEFRA Environmental Reporting Guidelines**.

7 Attributable to energy transmission and distribution, waste disposal and water usage and treatment.

8 Restated for previous years and now includes costs of leased cars, transport allowances and travel and subsistence.

9 Compared to £3,139 for the Welsh Government as of 31 March 2015.

10 Including rent, rates and other costs.

11 Compared to 14.2 m² per WTE for the Welsh Government as of 31 March 2015. 2015-16 is the first year that we have included contractors in our WTE total, to ensure a like-for-like benchmarking comparison.

Accountability report

Key statements and reports that enable us to meet accountability requirements and demonstrate compliance with good corporate governance.

Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer

10 June 2016



Corporate governance report

Directors' Report

General matters

On 1 April 2014, the Wales Audit Office became fully established under the Public Audit (Wales) Act 2013 with the transfer of staff, property, rights and liabilities from the Auditor General. Accordingly, 2014-15 was the first full accounting year of the Wales Audit Office.

The remuneration and staff report provides an indication of how pension liabilities are treated in the accounts and makes reference to the statements of the Civil Service Pension Scheme.

Information on our register of interests and how access to the information in that register may be obtained is provided in the [governance statement](#).

Wales Audit Office sickness absence data, alongside information regarding our commitment to ensuring fair and equal treatment for all staff with protected characteristics (including impairment¹²) in all aspects of employment, is provided in the [remuneration and staff report](#).

Information on our reporting of personal data related incidents is included in the information governance section of the [governance statement](#).

Our published [Annual Plan for 2016-17](#) provides an outline of likely future developments in the business of the Auditor General and Wales Audit Office.

¹² The Wales Audit Office subscribes to the Social Model of Disability in recognition that people with impairments are disabled by social, environmental, institutional and attitudinal barriers in society. Important definitions within the Social Model:

- Impairment is an injury, illness or congenital condition that causes or is likely to cause a long-term effect on physical appearance and/or limitation of function within the individual that differs from the commonplace.
- Disability is the loss or limitation of opportunities to take part in society on an equal level with others due to social, institutional, environmental and attitudinal barriers.

Communication and engagement with staff

During the course of the year we have used a variety of media and mechanisms to: provide Wales Audit Office employees with information on matters of concern to them as employees; consult with employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests; encourage the involvement of employees in the organisation's performance; and achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Wales Audit Office.

These include communication, engagement and consultation through:

- holding regular team meetings with senior staff and Board member involvement;
- arranging 'partnership forum' meetings with trade union representatives, and engaging such representatives in the process for preparing or revising specific policies and organisational development initiatives, where relevant;
- posting regular blogs from members of the Board and Management Committee, and making Board and Management Committee minutes readily available for viewing on our intranet;
- maintaining an intranet 'carousel' of current news, reports and consultations and encouraging staff to share information and good practice through an internal social media network; and
- preparing, publishing and raising awareness of our Annual Plan (and interim and annual reports against that Plan), which includes additional information on our three-year strategy and priorities, alongside a suite of key performance measures and targets.

Employee elected members also provided an extra dimension of insight and experience, and conveyed a staff perception to the Board.

In addition, during 2015-16, we worked in partnership with the Prospect trade union to undertake an organisational trust survey through the Centre of Trust, Peace and Social Relations at Coventry University. This work was approaching completion at the year-end.

Auditor of the Wales Audit Office

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) have been appointed as external auditor of the Wales Audit Office by the Finance Committee of the National Assembly for Wales for a period of three years commencing 1 April 2014.

In addition to their work to form an opinion on the financial statements, RSM UK Audit LLP also provide value for money reports on the Wales Audit Office to the Finance Committee, which are available on the [National Assembly's website](#). During 2015-16 we completed our response to RSM UK Audit LLP's review of our fleet and travel arrangements.

Details of the cost of external audit services are disclosed in the [notes to the financial statements](#).

So far as I am aware, there is no relevant audit information of which our auditor is unaware, and I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information, and to establish that our auditor is aware of that information.

The Wales Audit Office Board



David Corner
Non-executive
Member



Amanda Hughes
Elected
Employee
Member



Kevin Thomas
Appointed
Employee
Member



Steve Burnett
Non-executive
Member and
Senior Independent
Director



Isobel Garner
Non-executive
Chair



Huw Vaughan
Thomas
Auditor General
for Wales and
Chief Executive



Lindsay Foyster
Non-executive
Member



Peter Price
Non-executive
Member



Louise Fleet
Elected
Employee
Member

The Board is responsible for:

- Monitoring the exercise of the Auditor General's functions
- Providing the Auditor General with advice
- Employing staff and providing resources for the exercise of the Auditor General's functions
- Charging fees for work done by the Auditor General
- Preparing jointly with the Auditor General an annual plan and estimate of income and expenses

The Wales Audit Office Management Committee



Huw Vaughan Thomas

Auditor General,
Accounting Officer
and Chief Executive



Anthony Barrett

Assistant Auditor
General and Head of
Financial Audit



Gillian Body

Assistant Auditor
General and Head of
Performance Audit



Alan Morris

Sector Lead,
Local Government
and Criminal Justice



Mike Usher

Sector Lead,
Health and Central
Government



Kevin Thomas

Director of Corporate
Services



Steve O'Donoghue

Director of Finance

Statement of Accounting Officer's responsibilities

Under paragraph 33 of Schedule 1 to the Public Audit (Wales) Act 2013, the Auditor General is the Accounting Officer for the Wales Audit Office and must, for each financial year:

- keep proper accounts and proper records in relation to them; and
- prepare a statement of accounts in the form and on the basis set out in the Accounts Direction.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Wales Audit Office and of its net resource outturn, application of resources, 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, and in particular to:

- observe the Accounts Direction issued by the National Assembly for Wales, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Wales Audit Office's assets, are set out in Managing Public Money published by the Welsh Government.

As per the Memorandum for the Accounting Officer of the Wales Audit Office, issued by the National Assembly, the Accounting Officer must:

- ensure that there is a high standard of financial management in the Wales Audit Office and that its financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity;
- ensure funds are applied only to the extent and for the purpose authorised by the Assembly;
- ensure that the resources for which the Wales Audit Office is responsible for are properly and well managed and safeguarded; and
- provide advice to the Wales Audit Office on all matters of financial propriety and regularity.

As Accounting Officer, I confirm that:

- as far as I am aware, there is no relevant audit information of which the Wales Audit Office's auditors are unaware;
- I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Wales Audit Office's auditors are aware of that information; and
- this annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for this annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

This statement sets out the control structure of the Wales Audit Office, and provides an account of corporate governance and risk management, alongside a description of the principal risks and uncertainties we face.

My responsibilities as Accounting Officer are set out in the [statement of accounting officer's responsibilities](#). In discharging these responsibilities and amongst other requirements, I must seek to ensure that:

- a sound system of internal control is maintained in the Wales Audit Office, including a robust internal audit process, to support the proper exercise of statutory functions; and
- the Wales Audit Office's management of opportunities and risk achieves the right balance commensurate with the business of the Auditor General and Wales Audit Office.

Corporate governance

The governance framework

The governance framework of the Wales Audit Office, including information on the coverage of the Board's work and on its committees, is summarised in the exhibit overleaf.

Our full Board of nine members, as determined by the Public Audit (Wales Act 2013), comprises a majority of five non-executive members (including the Chair), the Auditor General, an appointed employee member and two elected employee members.

The Remuneration Committee comprises the five non-executive members of the Board. The Audit and Risk Assurance Committee (ARAC) comprises two non-executive Board members, an elected employee Board member and an independent member.

Further information on membership of the Board and Management Committee can be found in the Directors' Report.

The Management Committee and other Directors also meet on a regular basis as a broader Senior Leadership Team. The Board and its Committees, and the Management Committee are supported by a Board Secretary.

When carrying out its work, the Board applies a formal Scheme of Delegation, terms of reference incorporating its procedural rules, a Members' Code of Conduct and a Code of Relationship Practice between the Wales Audit Office and the Auditor General.

Finance Committee of the National Assembly

Scrutinises the Wales Audit Office's use of resources and is responsible for the appointment of the non-executive members of the Wales Audit Office Board and the external auditor

Wales Audit Office Board

Monitors the exercise of the Auditor General's functions

Provides the Auditor General with advice

Employs staff and provides resources for the exercise of the Auditor General's functions

Charges fees for work done by the Auditor General

Prepares jointly with the Auditor General an estimate of income and expenses, fee scheme, annual plan, interim report(s) and an annual report

Remuneration Committee

Advises the Board on whether the remuneration arrangements:

- a) support its strategic aims;
- b) enable the efficient, effective and economic conduct of business; and
- c) comply with regulatory requirements

Audit and Risk Assurance Committee

Advises the Board on whether the audit and risk assurance arrangements:

- a) support its strategic aims;
- b) enable the efficient, effective and economic conduct of business; and
- c) comply with regulatory requirements

Management Committee

Provides executive management and governance to the operational delivery of the work of the Auditor General and Wales Audit Office. Chaired by the Auditor General for Wales, as Chief Executive and Accounting Officer.

Attendance at Board and committee meetings 2015-16

	Board	ARAC	RC	MC
Number of meetings held	7	4	5	14
Members of the Board and its committees				
Isobel Garner – Non-executive Chair	7		5	1
Steve Burnett – Non-executive Member and Senior Independent Director	7		3	
David Corner – Non-executive Member and ARAC Chair	7	4	5	
Peter Price – Non-executive Member and Remuneration Committee (RC) Chair	7		5	
Lindsay Foyster – Non-executive Member	7	4	5	
Huw Vaughan Thomas – Auditor General for Wales, Chief Executive and Accounting Officer ¹	7	4	4	13
Kevin Thomas – Appointed Employee Member and Director of Corporate Services ²	7	4		11
Amanda Hughes – Elected Employee Member ³	7	1		
Louise Fleet – Elected Employee Member	7	3		
Alison Gerrard – Independent Non-executive ARAC Member	1	4		
Members of the Management Committee (MC) who are not Board members⁴				
Anthony Barrett	3	2		12
Gillian Body	5	1		12
Mike Usher	1			14
Alan Morris				12
Steve O'Donoghue ⁵	7	4	5	14

¹ Huw Vaughan Thomas attended ARAC and RC meetings in his capacity as Chief Executive and Accounting Officer.

² Kevin Thomas attended ARAC meetings in his capacity as Director of Corporate Services.

³ Amanda Hughes attended one ARAC meeting in an observer capacity.

⁴ Management Committee members attended meetings of the Board and ARAC as necessary to give briefings or to take their advice.

⁵ Steve O'Donoghue, as Director of Finance, is required to be in attendance at all meetings of the Board and ARAC. He attends the Remuneration Committee in that capacity and as the Strategic Head of the HR service.

Account of corporate governance

The Board receives assurance that its objectives are being met through:

- internal management reports, performance reports and topical briefings;
- independent internal reports, including internal audit reports and the reports of the Audit and Risk Assurance Committee and the Remuneration Committee; and
- external audit reports.

The level of assurance sought and provided is proportionate to the associated levels of assessed risk.

In 2015-16, the Board approved, amongst other business, an estimate of income and expenses for 2016-17, an interim report on progress made against the 2015-16 annual plan, a fee scheme for 2016 and an annual plan for 2016-17 which includes additional information on our three-year strategy and priorities. These documents were laid before the National Assembly and scrutinised by the Finance Committee.

The Board recognised the ongoing improvements in the quality of information it received to provide assurance and inform its decisions. Regular reporting of performance against the key performance measures and priorities set out in the Annual Plan enhanced the Board's ability to challenge the Chief Executive. The reporting process was supported by quality control systems, including Director-level reviews, Management Committee scrutiny prior to Board consideration, alongside internal audit reviews of quality assurance arrangements, management information and corporate reporting controls.

In 2016-17, the ARAC will be working with the Management Committee to conduct an assurance mapping exercise to systematically align the sources of assurance to the Board's information requirements to ensure that reporting is comprehensive and robust, and that there are no gaps or duplication.

The Scheme of Delegation reserves to the Board the setting of HR policies. In 2015-16 the Board considered how it could best implement that function. In November 2015, the Board approved a proposal to reconstitute the Remuneration Committee as a Remuneration & HR Committee with a wider remit to advise the Board on the HR policy framework and its fitness for supporting delivery of the Wales Audit Office's strategic objectives. Work is currently underway to put in place the practical arrangements to implement this decision.

The Board Secretary maintained a register of interests, which was updated during the year to capture any additional information from declarations at Board and committee meetings. This ensured that potential conflicts of interest were identified in advance of meetings where practicable and appropriate action was taken to mitigate them. Subject to applicable exemptions, this is available on request by emailing info@audit.wales.

The Chair of the Wales Audit Office and the chairs of its committees have a right of access, and can report any matters of concern, directly to the Chair of the Finance Committee.

The Head of Internal Audit and the external auditor continued to have open and confidential access to the ARAC, including via a private session before each committee meeting.

The Board is satisfied that the Wales Audit Office is compliant with the requirements of the Code of Good Practice for Corporate Governance insofar as its requirements are relevant and practical. The arrangements did not comply with the Code's requirements in respect of Board composition since the composition is set out in statute, and to include ministerial representation and government officials would have risked compromising my independence as Auditor General.

Board performance and effectiveness review

In 2014-15, the Board commissioned external support for a Board effectiveness review, the interim report of which the Board received in March 2015. That report of a benchmarking exercise focusing on tasks and roles, interactions and individual contributions, helped to inform a facilitated development session in May 2015.

The development session delivered a number of actions designed to improve the practical arrangements around Board meetings as well as helping members to better understand their individual working styles and behaviours and how to maximise their collective impact to improve the Board's overall effectiveness.

The next phase of the project will deliver a final assessment report outlining strengths, areas for further development and direction of travel as well as recommending actions and activity to enhance performance. The Board will report on the outcomes to the National Assembly's Finance Committee later in 2016 and I will summarise them in my 2016-17 annual governance statement.

Also during the year:

- the Board continued with its convention of holding informal briefing sessions before meetings as an effective mechanism for improving members' knowledge and understanding of particular aspects of the business, thereby enhancing Board effectiveness;
- the Chair completed one-to-one reviews with each Board member in which she discussed with them their individual contributions;
- the Chair completed an appraisal of the Auditor General in his role as Chief Executive; and
- the Senior Independent Director completed an appraisal of the Chair's performance against her objectives.

Report of the Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee presented its annual report to the Board and Accounting Officer in June 2016, summarising its conclusions from the work it had undertaken during 2015-16.

The Committee was satisfied that it had completed sufficient work to provide assurance that the Wales Audit Office's systems are delivering an effective framework of governance, risk management and control.

In particular:

- the new risk management arrangements appear to be operating effectively, though the Board has already noted the need for vigilance in ensuring that the strategic risk register is up-to-date and used to inform business decision-making;
- the financial management and management reporting arrangements are developing to meet the challenge of the "cost of function" provisions of the Public Audit (Wales) Act 2013; and
- the annual governance statement is consistent with the Committee's view of the Wales Audit Office's internal control environment.

During the year the Board clarified the Committee's role in scrutinising the strategic risk register such that its focus was on testing individual risks to determine whether, in the round, the Wales Audit Office's arrangements were robust. The Committee considered three strategic risks relating to the introduction of a new IT system for financial audit work and time recording, audit supply contracts, and data security.

For the first time in 2015-16, the Committee also assessed the performance of the internal and external auditors using checklists developed from those used by one of the large accountancy practices. Overall, the responses characterised constructive and open relationships with both internal and external audit. The Committee did, however, note some areas for improvement in specific aspects of the work of both internal and external audit.

Report of the Remuneration Committee

The Remuneration Committee presented its annual report to the Board and Accounting Officer in June 2016.

In 2015-16, the review of transport arrangements for supporting mobile staff was the single most significant issue in the Committee's work programme because of the very high risk of demotivated and disengaged staff as well as the potential for reputational damage should the new arrangements be perceived as overly generous.

The Board was satisfied that the final offer for a new travel scheme, based on the Committee's comprehensive advice throughout the year, represented the best that it could achieve for both the Wales Audit Office and staff in terms of alignment with our responsibilities and duties in relation to the health, safety and well-being of staff, equality, environmental sustainability, and achieving value for money. The Committee was pleased to note the clear acceptance of the new terms in a ballot conducted by the Wales Audit Office's two trades' unions.

The Committee also spent time planning its strategic approach and working methods for the period after its scope is enlarged and membership changed. In 2016-17 it intends to look at the HR policy framework holistically as well as thematically.

Internal auditor's report

BDO LLP were appointed as the internal auditors of the Wales Audit Office for the year ended 31 March 2016. An internal audit plan for 2015-2018 was prepared for consideration and was approved by the ARAC at its meeting on 25 February 2015.

During 2015-16, 10 internal audit reports were issued by BDO LLP on reviews of: the delegated authority framework, business continuity, risk management, financial systems and controls (interim and final), iTrent implementation and HR processes, quality assurance arrangements, management information and corporate reporting (follow-up), and real time recording and WIP valuation.

Summary of the levels of assurance provided in internal audit report opinions in 2015-16

Design of internal control framework	Substantial			3	6
	Moderate				1
	Limited				
	None				
Assurance level	None	Limited	Moderate	Substantial	
Operational effectiveness of internal controls					

In his annual statement of assurance for 2015-16, the Head of Internal Audit reported that:

'As the provider of internal audit services to the Wales Audit Office, we are required to provide the Board with an opinion on the adequacy and effectiveness of internal control processes, which supports the organisation's own governance statement.

In giving our opinion it should be noted that assurance can never be absolute. The Internal Audit service provides the Wales Audit Office with reasonable assurance that there are no major weaknesses in the internal control system for the areas reviewed for the period from 1 April 2015 to 31 March 2016.

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Wales Audit Office's risk management and internal control arrangements.

In our opinion, based on the reviews undertaken and completed during the period, we are able to conclude that risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable assurance that the related risk management, control and governance objectives were generally achieved by the end of the period under review.'

Risk management

Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity and propriety, and financial management is low. In other areas, such as in relation to the exchange of good practice and engaging more effectively with the public, we are prepared to accept more risk in order to take advantage of opportunities to pursue our aim and objectives.

The Wales Audit Office is committed to adopting best practice in the identification, evaluation and cost-effective control of risks to ensure they are reduced to an acceptable level or eliminated. It is acknowledged that some risks will always exist and will never be eliminated – but these too must be monitored and controlled.

Risk management and control framework

The Board has overall responsibility for risk management, and receives and considers a strategic risk register and a report which summarises any significant changes to the organisation's risk profile at each of its meetings.

The Board is supported by the ARAC, which reviews and advises the Board on:

- its risk strategy, including the appropriateness of the Wales Audit Office's approach to setting its appetite for risk;
- the Wales Audit Office's overall risk assessment processes that inform executive decision making;
- the Wales Audit Office's capability to identify and manage risk;
- the remit of the risk management function, including its access to resources and information to perform its role effectively and in accordance with the relevant professional standards, free from management or other restrictions; and
- management's responsiveness to risk assessment.

The Management Committee is responsible for managing risk on a day-to-day basis, and maintains a risk register with identified strategic and operational risks that could affect the achievement of the Wales Audit Office's aim and objectives.

The Management Committee reviewed the strategic risk register in advance of its consideration by the Board throughout 2015-16, and formally reviews the operational risk register every six months.

The Accounting Officer advises the Board and its committees on the system of internal control, and is supported in doing so by the Management Committee.

Risk assessment

New risk management arrangements for the Wales Audit Office were formally launched on 1 April 2015, following approval by the Board. The new arrangements had been developed following a review by Internal Audit in early 2014-15, which concluded that there was a need to strengthen risk management arrangements in a number of areas, and to improve risk awareness and ownership throughout the organisation.

At each of its meetings in 2015-16, the Board considered the key strategic risks faced by the organisation, alongside a more detailed strategic risk register which:

- provided an assessment of inherent levels of risk and assigned risk targets;
- described the key controls that have been put in place to mitigate risk likelihood and impact and achieve targets;
- provided an assessment of residual levels of risk, and identified movements since the last Board meeting; and
- summarised the content of the register through inherent and residual risk heat maps and profiles.

As in previous years, in 2015-16 there were a number of key strategic risks that fluctuated during the year and that particularly engaged the time of the Board and Management Committee:

- Financial audit continued to experience significant and persistent resourcing shortages as a result of staff turnover and recruitment difficulties in early 2015. In response, we rotated staff between projects based on priorities, used agency staff to fill short term gaps, limited the amount of leave taken and training undertaken in the busy accounting period, tried new approaches to recruitment and accelerated the appointment of trainee auditors.
- A broad range of policy and political factors are likely to influence how we deliver our work over the next few years. These include: changes to the devolution landscape: fiscal devolution – transfer of some tax raising and borrowing powers from Westminster to Wales by 2018; acceleration of changes to service delivery models and financing mechanisms; a requirement for earlier closure of local government accounts by 2018-19; the potential reorganisation of local government, and amendments to Welsh Government grant funding and certification arrangements. Work commenced on strengthening and optimising our workforce strategy to ensure we can both meet current demand and are able to anticipate and respond to future developments.

- We are continuing to work with the National Assembly's Finance Committee to overcome complexity and reduce risk in our fee charging arrangements. Section 23 of the Public Audit (Wales) Act 2013 requires that the fee charged for each individual piece of audit work at an audited body 'may not exceed the full cost' of that work. This requirement can result in a scenario where we have to refund costs for one piece of work whilst raising additional invoices for another, all for the same audited body.
- Our workforce must be sufficiently mobile in order to effectively deliver the Auditor General's work programme at public bodies throughout Wales. Our transport arrangements were reviewed and revised in 2015-16 to ensure that our policies are better aligned with our responsibilities and duties in relation to the health, safety and well-being of staff, equality, environmental sustainability, and achieving value for money.

I am satisfied that the risks associated with these projects have been monitored and managed effectively during the year.

A number of risks were successfully managed and removed from the strategic risk register during 2015-16. These include:

- the risk of having ineffective risk management arrangements; and
- the risk that a new IT system to support financial audit work and time recording would not be fully implemented to the planned timescale, thereby affecting business continuity.

The Wales Audit Office also faces a number of newly identified risks going forward into 2016-17, which have been reflected in our risk register. In particular, there is a risk that the Welsh language skills of Wales Audit Office staff will not be sufficient to meet the requirements of the new Welsh Language Standards. We have commissioned work to mitigate these new risks.

I will continue to ensure that risks are generally well managed, that where there are weaknesses, appropriate actions are in place to tackle them, and that the Wales Audit Office's internal controls are regularly reviewed to ensure they remain effective.

The Wales Audit Office's strategic risk profile

A summary of the Wales Audit Office's strategic risk profile in March 2016 is provided in the following 'heat map', which highlights the number of strategic risks and the assessed levels of residual risk following the application of controls to mitigate their impact and likelihood.

Impact	Severe				
	Major	2	1	2	
	Moderate	3	2		1
	Minor			1	
		Unlikely	Possible	Likely	Almost certain
		Likelihood			

Key	
	Very high
	High
	Medium
	Low

Information governance

As Auditor General, I have wide-ranging access to information for the discharge of my audit functions. These powerful access rights bring with them a responsibility to ensure that the information obtained by me and the Wales Audit Office is safeguarded properly.

The Wales Audit Office therefore has an Information Security Policy which sets out staff obligations and responsibilities, data processing requirements, monitoring and reporting arrangements, and explains how staff can obtain further support and guidance.

The Director of Corporate Services is accountable to the Board for information governance. The Wales Audit Office has adopted ISO 27001, the international standard for information security management, scaling its arrangements in line with the needs of the organisation.

There were no personal data related incidents reportable to the Information Commissioner's Office in 2015-16.

We are committed to openness and transparency in the way we operate as a business and have 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.

In the 2015-16 financial year, we received 50 requests for information. In one case we did not meet the statutory deadline. This was because the request was handled as correspondence and, should, in part, have been handled as a request for information. However, the delay was not significant and full disclosure was provided.

We were not subject to any reviews in 2015-16 by the Information Commissioner.

Whistleblowing

All Wales Audit Office staff are encouraged to raise issues of concern about misconduct or wrongdoing that come to their attention while at work. The Wales Audit Office Board regards the internal identification of wrongdoing as an important contribution to managing corporate risk and ensuring good governance.

We have a well-established internal whistleblowing policy, which reflects the provisions of the Public Interest Disclosure Act 1998, sets out the mechanism for raising such matters, and applies to staff of the Wales Audit Office and all contractors and others working for the Wales Audit Office in any capacity.

We have recently refreshed our policy and arrangements to take account of changes in legislation and developments in the organisation. It is difficult to assess the effectiveness of our arrangements, as we have had no internal disclosures in the year, or in preceding years. We have specific arrangements for reporting information governance problems, such as potential threats to information security, which are operated by the same staff as the whistleblowing arrangements. While the volume of reporting is not high – a handful of concerns raised during the year – this does indicate that staff have some confidence in making reports where appropriate.

We do intend, however, to further explore the issues of trust and confidence (which are essential to effectiveness) in our whistleblowing arrangements, possibly through surveying staff. A recent trust survey undertaken by Coventry University at the Wales Audit Office did not reveal any significant issues in relation to the whistleblowing arrangements.

The Auditor General is also a 'prescribed person' under the Public Interest Disclosure Act for raising concerns about the following matters:

- the proper conduct of public business; and
- fraud, value for money, and corruption in relation to the provision of public services.

Further information on blowing the whistle is provided on our website, via our leaflet:

[Are you concerned about wrongdoing or malpractice in the workplace?](#)

As a prescribed person, the Auditor General is not under a duty to investigate every disclosure he receives. He can only consider disclosures in accordance with his existing audit and related powers and duties (the Act does not confer any additional powers on to the Auditor General).

While we recognise that the issues external whistleblowers raise are important to them, we must make sure that we do not use public money looking at issues that are not relevant to the Auditor General's work, or spend too much time on minor issues.

Between January 2015 and December 2015 we received a total of 36 communications via our external whistleblowing arrangements. Of these 24 fell within the Auditor General's remit.

In March 2016, we published a newsletter highlighting the key issues and developments in the field of whistleblowing both inside and outside of the Wales Audit Office over the last 12 months, including a summary of the content and outcomes from two Good Practice Exchange events that were held in the autumn of 2015 on the topic of whistleblowing.

Remuneration and Staff Report

Remuneration report

Auditor General for Wales

The Auditor General's remuneration is determined by the National Assembly for Wales and, in accordance with the Public Audit (Wales) Act 2013, is to be met directly from the Welsh Consolidated Fund (WCF) rather than being paid by the Wales Audit Office. For enhanced transparency, the remuneration of the Auditor General is disclosed in this Remuneration Report.

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. The gross salary cost of the Auditor General during 2015-16 was £153,000 (2014-15: £153,000).

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 2015-16 were £31,237 (including employer contributions of £26,701 and member contributions of £4,536) (2014-15: £27,927 including employer contributions of £23,079 and member contributions of £4,848).

Wales Audit Office Board

The Wales Audit Office Board comprises five non-executive members appointed by the Assembly, two elected employee members, the Auditor General for Wales and his nominated employee member, the Director of Corporate Services.

The remuneration of the non-executive members of the Wales Audit Office Board is non-pensionable and is determined by the Assembly, and in the case of the Chair, is met from the WCF directly, in accordance with the Public Audit (Wales) Act 2013. For enhanced transparency, the remuneration of the Chair of the Wales Audit Office Board is disclosed in this report. The two elected employee members were appointed by the non-executive members of the Board, following a staff ballot, in May 2014. The allowances that they receive for their Board related duties are set by the Board¹³ and disclosed in this report. The Auditor General and the Director of Corporate Services receive no additional allowances for their Board related duties.

The following information in the Remuneration and Staff report is subject to audit.

¹³ Employee members do not participate in this discussion

Single total figure of remuneration for Wales Audit Office Board members

	Remuneration/ Allowance		Tax inclusive expenses ¹		Single total figure of remuneration	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
	£	£	£	£	£	£
Steven Burnett	12,500	12,500	1,687	3,031	14,187	15,531
David Corner	12,500	12,500	9,720 ²	9,643	22,220	22,143
Lindsay Foyster ³	12,500	537	602	112	13,102	649
Isobel Garner (Chair) ⁴	25,000	25,000	6,419	8,108	31,419	33,108
Christine Hayes ⁵	–	7,882	–	1,818	–	9,700
Peter Price	12,500	12,500	557	1,304	13,057	13,804
Amanda Hughes ⁶	4,167	3,573	866	378	5,033	3,951
Louise Fleet	4,167	3,573	667	693	4,834	4,266
Total	83,334	78,065	20,518	25,087	103,852	103,152

1 In addition to the remuneration or allowance for their role, Board and non-executive committee members are able to claim for their travel and expenses. The personal tax liability in respect of these expenses is settled by the Wales Audit Office under a PAYE Settlement Agreement with HMRC.

2 David Corner is based in North East England hence his expenses reflect the longer travel distance to Wales Audit Office offices

3 Lindsay Foyster was appointed from 16 March 2015.

4 Isobel Garner, as Chair of the Wales Audit Office Board is paid directly from the WCF and receives no remuneration from the Wales Audit Office other than reimbursement of travel and expenses. Her remuneration has been disclosed for enhanced transparency.

5 Christine Hayes resigned from the Wales Audit Office Board on 18 November 2014 and was replaced by Lindsay Foyster.

6 Amanda Hughes and Louise Fleet are employee members of the Wales Audit Office Board and were appointed by the non-executive members in May 2014 following a staff ballot. The allowances disclosed above relate solely to their board member duties.

Non-Executive committee members

The Wales Audit Office Board has appointed an independent member of its ARAC. Remuneration for this post was determined by the Board and is non-pensionable.

Single total figure of remuneration for Non-executive committee members

	Remuneration		Tax inclusive expenses		Single total figure of remuneration	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
	£	£	£	£	£	£
Alison Gerrard ¹	5,000	2,500	184	107	5,184	2,607
Total	5,000	2,500	184	107	5,184	2,607

¹ Alison Gerrard was appointed as an independent member of the ARAC on 1 October 2014.

The accounts for 2014-15 included payments to previous non-executive committee members, totalling £3,795, whose terms of office had ended by 31 March 2015.

Wales Audit Office staff

All members of staff are employed by the Wales Audit Office on such terms and conditions as the Board determines. Remuneration of all members of staff is subject to periodic review under strategies set by the Board and consultation with trade unions under a collective agreement. Remuneration is pensionable under the Civil Service Pension Scheme.

Wales Audit Office staff normally hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

When determining pay strategies, the Board considers:

- the need to recruit, retain and motivate suitably able, qualified and high-calibre people;
- overall affordability;
- pay practices in the wider public sector and comparator organisations; and
- relevant legal obligations including equality and anti-discrimination requirements.

Pay ranges for all staff are available on our website. The Wales Audit Office does not pay performance related bonuses to any members of staff, but does have annual performance appraisal arrangements that suspend salary increments if performance is less than satisfactory.

During 2015-16, £15,265 was paid as compensation on early retirement for a past director (2014-15 : £30,583). These costs have been offset against a provision held for this purpose established in 2010-11.

Set out overleaf are details of the remuneration and pension interests of members of the Management Committee. The Auditor General's performance appraisal summary of Management Committee members is subject to scrutiny by the Board's Remuneration Committee.

Single total figure of remuneration for senior managers

	Year to 31 March 2016					Year to 31 March 2015				
	Salary ¹	Benefits in kind	Taxable expenses ²	Pension benefit	Total single figure of remuneration	Salary	Benefits in kind	Taxable expenses	Pension benefit	Total single figure of remuneration
	Bands of £5,000	To nearest £100	To nearest £100	To nearest £1,000	Bands of £5,000	Bands of £5,000	To nearest £100	To nearest £100	To nearest £1,000	Bands of £5,000
Anthony Barrett	115-120	4,600	11,800	63	190-195	115-120	4,700	14,300	26	160-165
Gillian Body	120-125	–	–	40	160-165	120-125	–	–	13	135-140
Mike Usher	105-110	–	–	41	145-150	105-110	–	–	13	115-120
Alan Morris	95-100	2,800	–	72	165-170	90-95	2,200	–	94	185-190
Kevin Thomas	120-125 ³	–	15,000	54	190-195	115-120	3,500	19,600	62	200-205
Steve O'Donoghue	80-85	–	–	67	145-150	70-75 ⁴	–	–	42	110-115

1 Including Transport Allowance paid to Gillian Body and Kevin Thomas. Mike Usher is entitled to Transport Allowance but did not exercise this entitlement in 2015-16 or 2014-15. Steve O'Donoghue is not entitled to this allowance.

2 Being the tax inclusive value of payments made to Anthony Barrett and Kevin Thomas for travel to a main place of work.

3 Includes the sale of annual leave as available to all staff

4 Steve O'Donoghue was appointed on 28 April 2014

Salary

'Salary' includes gross salary and any other allowance (eg, transport allowance) to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind represents leased car benefits provided by the Wales Audit Office and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument. These benefits are in line with a standard entitlement for all mobile staff.

The Wales Audit Office provides a death in service benefit equivalent to a payment of one year's salary for any member of staff who dies whilst in the employment of the Wales Audit Office. The annual cost of this scheme in 2015-16 was £15,487 (2014-15: £10,684). This is a group insurance policy, and as such, cannot be directly attributed to any one member of staff and hence is excluded from the table above.

Expenses of senior staff

Information on the expenses of Management Committee members is published on the Wales Audit Office [website](#).

Pension entitlements for senior managers

	Accrued pension at pension age as at 31 March 2016 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2016	CETV at 31 March 2015	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Anthony Barrett	40-45	2.5-5	676	574	35	–
Gillian Body	50-55 plus lump sum of 150-155	7.5-10	1,088	974	36	–
Mike Usher	35-40 plus lump sum of 105-110	0-2.5	672	593	19	–
Alan Morris	55-60	2.5-5	1,088	947	71	–
Kevin Thomas	45-50	2.5-5	738	644	26	–
Steve O'Donoghue	30-35	2.5-5	451	371	36	–

Civil service pensions

Past and present employees of the Wales Audit Office are covered by the provisions of the Principal Civil Service Pension Scheme. The scheme is a defined benefit scheme and liability rests with the Scheme, and not the Wales Audit Office. The cost of benefits is met by monies voted by Parliament each year. The Wales Audit Office makes contributions as determined by the Cabinet Office to cover accruing pension entitlement for staff employed.

[Further details about the Civil Service pension arrangements can be found on its website.](#)

Cash equivalent transfer values (CETV)

A CETV is the actuarially assessed 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. A CETV 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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in cash equivalent transfer value

This reflects the increase in CETV that is 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.

Fair pay disclosure

The relationship between the remuneration of the highest-paid director and the median remuneration of the workforce is as disclosed in the following table.

	2015-16	2014-15
Band of highest-paid director's total remuneration ¹ excluding pension contributions (£'000)	135-140	135-140
Median total remuneration based on full-time-equivalent staff (excluding pension contributions)	£43,850	£44,704
Range of total remuneration excluding pension contributions	£18,219-£136,336	£14,900-£138,575
Remuneration ratio	3.11	3.10

¹ Total remuneration includes salary, transport allowance and benefits in kind. In the case of the highest-paid director, it also includes taxable expenses and the sale of annual leave. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

In 2015-16, no employees received remuneration in excess of the highest-paid director (2014-15: none). Remuneration ranged from £18,219 to £136,336 (2014-15: £14,900 to £138,575). The lowest remuneration in 2014-15 reflected work experience placements.

The reduction in median salary as compared to 2014-15 reflects the increased number of audit trainees employed in the year.

There is no requirement to disclose the salary of the Auditor General as he is paid directly from the WCF and not by the Wales Audit Office. For enhanced transparency, his total remuneration of £153,000 (excluding pension contributions) represented 3.49 times the median total remuneration for the Wales Audit Office (2014-15: £153,000, ratio: 3.42).

Staff report

Staff numbers

The average number of full-time equivalent staff employed increased by eight during the year, reflecting planned changes in the balance of work undertaken in-house versus contracted out to audit firms.

	2015-16	2014-15
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	229	227
Average number of full-time-equivalent, UK-based, staff on fixed term contracts employed during the year	24	14
Audit and inspection contractors (average number of full-time equivalents in year)	8	12

Staff and associated costs

	2015-16	2014-15 ¹
	£'000	£'000
Staff salaries	10,826	10,429
Seconded in staff	210	-
Short-term contract staff	285	226
Non-executive member remuneration ²	68	59
Social security costs	1,095	1,055
Pension costs (PCPS) ³	2,335	2,115
Pension costs (stakeholder pensions)	4	3
	14,823	13,887
Transport allowance and leased cars	782	722
Car scheme contractual changes	128	50
Subscriptions ⁴	42	48
	15,775	14,707
Audit and inspection contractors ⁵	222	548
	15,997	15,255
Redundancy, early retirement and severance costs ⁶	31	240
Less monies received in respect of outward secondments	(45)	(89)
Net staff costs	15,983	15,406

¹ 2014-15 restated to separately show short-term contract staff and costs of car scheme contractual changes.

² Excluding the remuneration of Chair of the Wales Audit Office Board whose remuneration is met by the Welsh Consolidated Fund.

³ Principal Civil Service Pension Scheme.

⁴ Fees for the membership of professional bodies, eye tests and staff medicals.

⁵ 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.

⁶ Costs associated with historical early retirees over and above that provided at the time.

Redundancies, early retirements and severances

The Wales Audit Office operates voluntary severance arrangements in accordance with the Civil Service Compensation Scheme and as approved by the Cabinet Office.

No such arrangements were agreed in 2015-16 and hence the cost of the scheme in 2015-16 was £Nil (2014-15: £316,825).

Details of the number of employees who entered into approved exit packages during 2014-15 are summarised below:

Exit package cost band	2015-16			2014-15		
	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 £25,000	-	-	-	-	1	1
£25,001 – £50,000	-	-	-	-	2	2
£50,001 – £100,000	-	-	-	-	2	2
£100,001 – £150,000	-	-	-	-	1	1
Total	-	-	-	-	6	6

No members of staff retired early on health grounds during the year.

Bought-in services

	2015-16	2014-15
	£'000	£'000
Payments to private accountancy firms	2,269	3,070
Research and other consultancy costs	101	86
	2,370	3,156

These costs relate to services bought in by the Auditor General that directly relate to audit, inspection, advice or research functions. The cost has reduced in line with a planned reduction in contracted out work as part of a long-term savings plan and workforce planning.

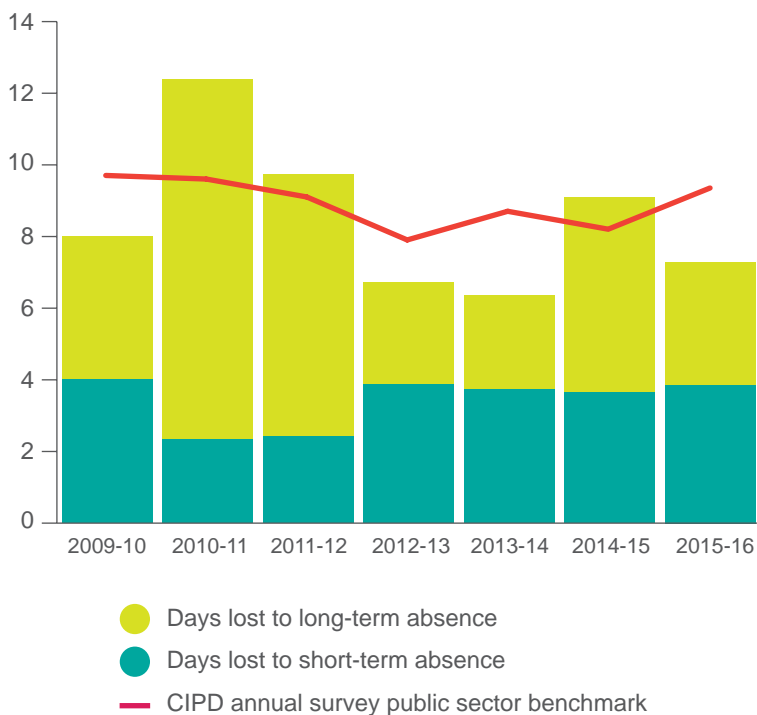
The following information in the Remuneration and Staff report is subject to audit.

Sickness absence

- Our staff sickness levels reduced by an average of almost two days per person due to a reduction in long term sickness.
- The overall absence figure was two days less than the Chartered Institute of Personnel and Development (CIPD) benchmark¹⁴, although marginally above our corporate target of 6.5 days.

	2015-16	2014-15
Average working days lost per member of staff	7.3	9.1
Due to short-term absence	3.9	3.7
Due to long-term absence (periods of ≥ 21 days)	3.4	5.4

Staff sickness absence 2009-10 to 2015-16



¹⁴ Mean of 9.3 days per employee per year for those public service organisations that responded to the 2015 CIPD annual Absence Management Survey

Equality and diversity

- Our age profile is broadly similar to that of the Civil Service, although we have a higher proportion of staff under 30 and a lower proportion of staff aged over 60.¹⁵

The Auditor General for Wales and Wales Audit Office are required to follow the framework of protection against discrimination, harassment and victimisation and the public sector equality duties brought in by the Equality Act 2010.

We also have a responsibility to uphold the conventions set out in the Human Rights Act 1998. We are 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 we fully support the rights of people to be treated with dignity and respect.

Our [Strategic Equality Plan](#) outlines our continued commitment to equality and our related objectives. Our annual reports on progress made towards delivering our equality objectives are available on our website. Our Equality and Diversity Policy outlines our commitment to ensuring fair and equal treatment for all staff with protected characteristics (including impairment) in all aspects of employment. The policy provides for parity in selection for employment, recruitment, promotion, learning and development and/or any other benefit, based solely on aptitude and ability in accordance with our duties under the Equality Act 2010 and associated legislation.

¹⁵ Civil Service Statistics 2015 figures: approximately 9.1 per cent aged less than 30 years, 82 per cent aged 30 to 59 years, and 8.3 per cent aged 60 years and over.

	2015-16	2014-15
Diversity	%	%
Female	49.6	51.0
Aged less than 30 years	13.1	9.8
Aged 30 to 59 years	83.1	84.5
Aged 60 years and over	3.8	5.7
Staff with a disability ¹	8.0	— ²
Staff from an ethnic minority ³	2.7	—
LGBT+ staff ⁴	3.1	—

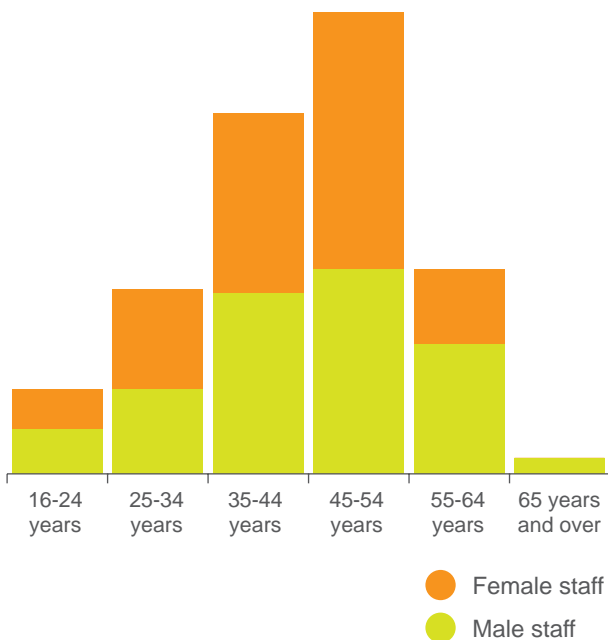
1 Percentage of staff who declared their disability status.

2 Data for staff with protected characteristics was not fully collected in 2014-15.

3 Percentage of staff who declared their ethnicity as Black, Asian or mixed race.

4 Percentage of staff who disclosed their sexual orientation as Lesbian, Gay, Bisexual or Transgender.

Staff age and gender analysis 2015-16 (Headcount)

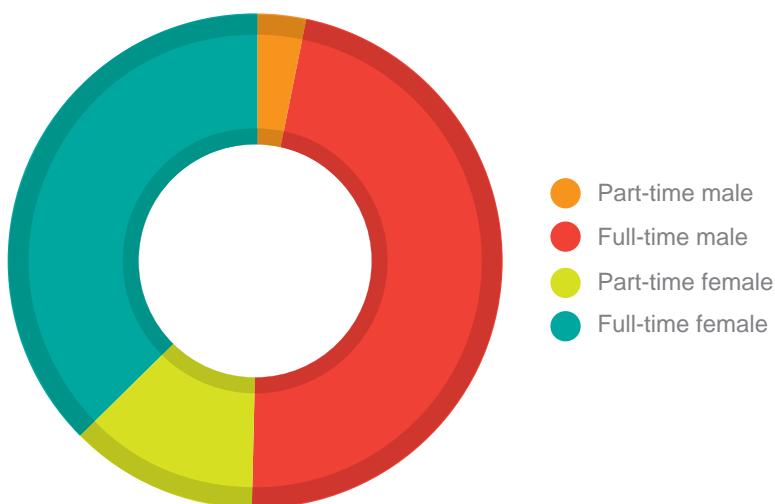


Our workforce

- The proportion of part-time employees reduced slightly for both male and female staff.
- The proportion of staff in management roles that are female increased
- The percentage of staff on permanent employment contracts reduced reflecting an increase in audit trainees on four-year training contracts
- Our annual staff turnover rate reduced to 5.3 per cent and is below the CIPD benchmark of 13.6 per cent¹⁶

	2015-16	2014-15
Working patterns		
Part-time employees as a percentage of total ¹	15.3	18.0
For men	6.1	7.5
For women	24.6	28.0
Employment contract type		
Percentage of staff on permanent employment contracts	90.5	95.1
Turnover		
Annual staff turnover rate percentage	5.3	9.8

¹ 25.4 per cent for the Civil Service in 2015 and 17 per cent for the Welsh Government.



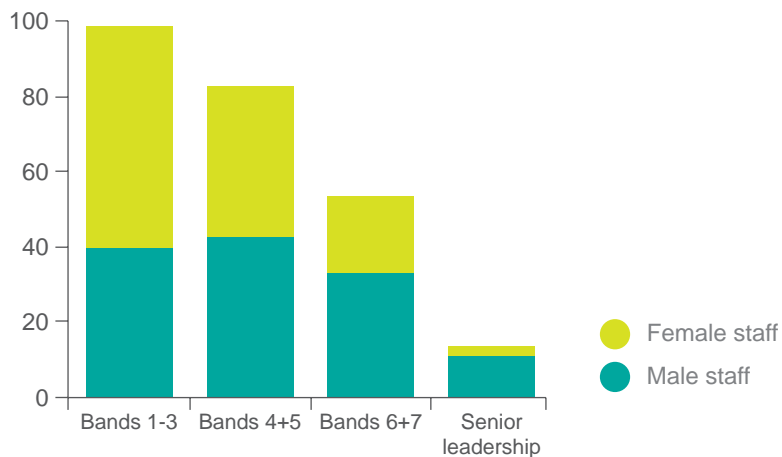
¹⁶ 13.6 per cent median for all organisations that responded to the 2014 CIPD Resourcing and Talent Planning Survey.

Grade distribution¹	2015-16	2014-15
Staff in senior leadership team bands ² (A to C) percentage	5.6	6.0
Staff in management bands (6 and 7) percentage	21.6	22.8
Staff in supervisory pay bands (4 and 5)	33.2	33.0
Staff in other pay bands (1 to 3) percentage	39.6	38.2
Percentage staff in senior leadership team that are female	20.3	20.3
Percentage staff in management that are female	37.9	34.5
Percentage staff in supervisory roles that are female	48.0	50.4
Percentage staff in other pay bands that are female	59.7	61.9

1 FTE at 31 March

2 Excluding Auditor General and Non-Executive Board Members.

Staff grade and gender distribution



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer

10 June 2015

Statement of Resource Out-turn 2015-16

This statement provides a comparison of the Estimate for 2015-16 as agreed by the National Assembly with actual income and expenditure in the year.

The Estimate included a sum of £200,000 contingency for unplanned work arising in the year. This was not required in 2015-16.

Summary of cash payable to the Welsh Consolidated Fund (WCF)

Arising from the operations of the Wales Audit Office for the 2015-16 financial year, the sum of £143,000 is repayable to the WCF.

Note	2015-16 Estimate			2015-16 Out-turn			Net total out-turn compared to estimate	2014-15 Out-turn	
	Gross expenditure	Income	Net Total	Gross expenditure	Income	Net Total			
	£'000	£'000	£'000	£'000	£'000	£'000			
SORO1	Revenue	23,580	(17,324)	6,256	21,962	(16,155)	5,807	(449)	5,293
SORO1	Capital	50	-	50	39	-	39	(11)	289
	Total resources	23,630	(17,324)	6,306	22,001	(16,155)	5,846	(460)	5,582
SORO2	Net cash requirement	6,146	-	6,146	-	-	6,003	(143)	5,276

Notes to the Summary of Resource Out-turn

Note SORO1: Reconciliation of net resource out-turn to net cash requirement

	2015-16 Estimate £'000	2015-16 Out-turn £'000	2015-16 Variance £'000	2014-15 Out-turn £'000
Revenue resources	6,256	5,807	(449)	5,293
Capital resources	50	39	(11)	289
Adjustments:				
Non-cash items (depreciation)	(160)	(193)	(33)	(177)
Movements in working capital other than cash	-	350	350	(129)
Total net cash requirement	6,146	6,003	(143)	5,276

The movements in working capital other than cash in the above table (£350,000) are the net of an increase in receivables and work in progress (£550,000), reductions in payables and deferred income (£14,000) and current provisions (£186,000) as included in the Statement of Financial Position.

Note SORO2: Analysis of net resource out-turn 2015-16

	2015-16 Estimate £'000	2015-16 Out-turn £'000	Variance £'000	Reason for significant variances	2014-15 Out-turn ¹ £'000
Expenses					
Staff costs	14,828	14,388	(440)	Staff vacancies in-year flexed to income expectations	13,786
Contractor staff	862	507	(355)	Demand for contractor staff reduced in line with income	548
Travel and subsistence	1,319	1,258	(61)	Linked to staff vacancies	1,264
Private sector firms (incl VAT)	2,728	2,582	(146)	Linked to reduction in grant certification fees	3,684
Accommodation	971	969	(2)		913
ICT	524	427	(97)	Includes efficiency savings following Insight implementation	426
Balance of irrecoverable VAT	500	344	(156)	Reflects lower than expected spend on other budget heads	368
Wales Audit Office Governance Arrangements	300	306	6		300
External training	266	266	-		203
Legal & professional fees	203	167	(36)		231
Translation of documents	110	145	35		141
Other costs	969	603	(366)	Includes unused contingency provision	548
TOTAL EXPENSES	23,580	21,962	(1,618)		22,412
Income					
Audit fees	(14,139)	(13,632)	507	See note below	(13,841)
Grant certification fees	(2,279)	(1,560)	719	Reduction in demand for EU and WG grant certification	(2,267)
WPI Grant	(906)	(951)	(45)		(947)
Other income	0	(12)	(12)		(64)
TOTAL INCOME	(17,324)	(16,155)	1,169		(17,119)
NET REVENUE RESOURCE	6,256	5,807	(449)		5,293
CAPITAL EXPENDITURE	50	39	(11)		289

¹ 2014-15 restated to provide further analysis.

In 2015-16 the net cost of the Wales Audit Office was £449,000 less than anticipated when the Estimate was agreed. This reduction includes savings due to staff vacancies and lower than expected demand for contractor staff and private sector firms. This was in response to a reduction in fee income in the year including a reduced requirement for grant certification. The £200,000 contingency for unplanned work was not required.

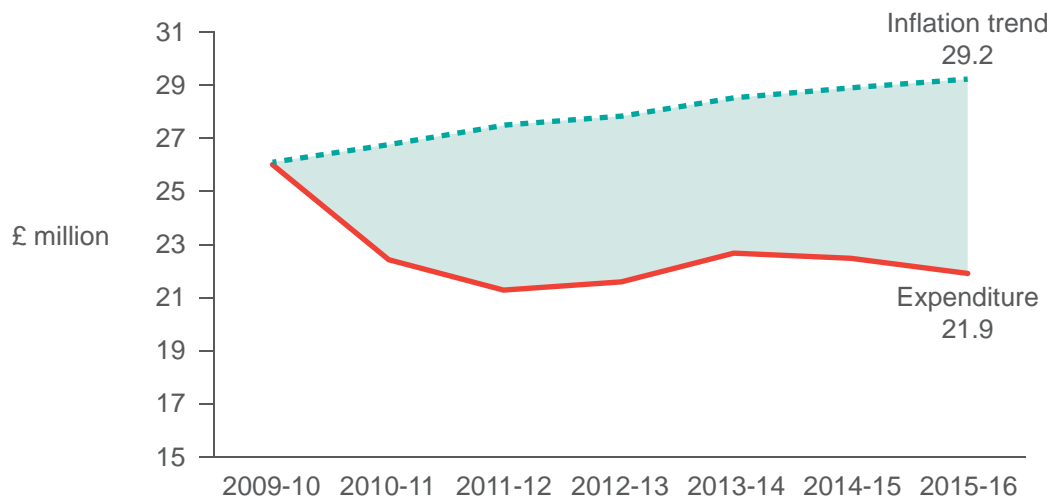
The financial management summary on page 33 provides further explanation of cost efficiency at the Wales Audit Office.

Audit fee income is governed by the Fee Scheme approved by the Finance Committee of the National Assembly. The Estimate for 2015-16 included provision for fee income and associated expenditure to increase above the level received in 2014-15 to allow for unforeseen additional fee earning work. In the event, these contingent amounts were not required and fee income in 2015-16 was actually less than in the previous year, being a combination of a small reduction in the number of bodies audited and a reduction in additional work required.

Long-term expenditure trends

Since 2009-10, the Wales Audit Office has reduced its expenditure by 25 per cent in real terms¹⁷, as represented below. The cumulative saving generated across those years (the shaded area) amounts to over £36 million, reducing both the call on the WCF, other than for new responsibilities, and the amount required to be raised from charging fees to audited bodies.

Expenditure 2009-10 to 2015-16



Future budgeted expenditure of the Wales Audit Office is determined annually by the National Assembly.

The Auditor General is not aware of any remote contingent liabilities that will impact long-term expenditure plans.

Complaints about the work of the Wales Audit Office are handled in accordance with guidance published on the Wales Audit Office website. No financial liability is envisaged in relation to any complaints in progress at the year- end.

¹⁷ Based on GDP deflators published by ONS June 2015.

Independent auditor's report

We certify that we have audited the financial statements of the Wales Audit Office for the year ended 31 March 2016 under Schedule 1 of the Public Audit (Wales) Act 2013. These financial statements comprise the Summary of Resource Outturn, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, and related notes. The financial reporting framework that has been applied in their preparation is HM Treasury directions issued under the 2013 Act. We have also audited the information in the Remuneration and Staff Report that is described in the report as having been audited. We have also undertaken work, as required under Schedule 1 of the Public Audit (Wales) Act 2013, to obtain reasonable assurance that expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that money to which the statement relates, received by the WAO for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

This report is made solely to the National Assembly for Wales to whom it is addressed in accordance with the Public Audit (Wales) Act 2013 and for no other purpose. Our audit work has been undertaken so that we might state to the National Assembly for Wales those matters we are required to state to them in an auditor's report 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 Wales Audit Office, the Auditor General for Wales and the Auditor

As explained more fully in the Statement of the Accounting Officer's responsibilities set out on page 46, the Wales Audit Office and the Auditor General for Wales are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and the Auditor General is also responsible for ensuring expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the WAO for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International 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 a reasonable assurance opinion that expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the WAO for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

Scope of the audit on the financial statements

A description of the scope of an audit on financial statements is provided on the [Financial Reporting Council's website](#).

We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the WAO for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes. We have conducted our work in accordance with the Audit Practices Board Practice Note 10 in this respect.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Wales Audit Office affairs as at 31 March 2016 and of its net operating cost for the year then ended; and
- have been properly prepared in accordance with the HM Treasury directions issued under the Public Audit (Wales) Act 2013.

Opinion on regularity

In our opinion, in all material respects:

- the expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it; and
- the money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

Opinion on other matters

In our opinion:

- the part of the Remuneration & Staff Report to be audited has been properly prepared in accordance HM Treasury directions issued under the Public Audit (Wales) Act 2013; 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.

RSM UK Audit LLP (Previously Baker Tilly UK Audit LLP)
10 June 2016

Registered Auditors
Davidson House
Forbury Square
Reading
RG1 3EU

Financial statements

The financial statements for the Wales Audit Office, alongside supporting
and explanatory notes.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2016

	Note	2015-16 £'000	2014-15 £'000
Expenditure			
Staff and associated costs	Staff report ¹	15,983	15,406
Bought-in services	Staff report	2,370	3,156
Other operating costs	3	3,609	3,850
		21,962	22,412
Income			
Audit fee income	1	(15,192)	(16,108)
Inspection grant	1	(951)	(947)
Other operating income	2	(10)	(57)
		(16,153)	(17,112)
Net (expenditure)		5,809	5,300
Interest receivable		(2)	(7)
Net expenditure after tax and interest		5,807	5,293
Total comprehensive net expenditure for the year		5,807	5,293

¹ Staff costs note on page 73 of the Remuneration and Staff Report

The notes that follow on pages 92 to 108 form part of these financial statements

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

Statement of Financial Position

at 31 March 2016

	Note	31 March 2016 £'000	31 March 2015 £'000
Non-current assets			
Property, plant and equipment	4	533	623
Intangible assets	5	188	252
		721	875
Current assets			
Trade receivables and work in progress	6	1,633	2,166
Other receivables	7	549	566
Cash and cash equivalents	8	2,950	2,841
		5,132	5,573
Total assets		5,853	6,448
Current liabilities			
Trade payables and other current liabilities	9	(2,225)	(2,055)
Deferred income	10	(2,220)	(2,404)
Provisions for liabilities and charges	11	(350)	(536)
Distribution of reserves to local government bodies	9	-	(2)
WCF (see Summary of Resource Out-turn)		(143)	(698)
		(4,938)	(5,695)
Total assets less current liabilities		915	753
Non-current liabilities			
Provisions for liabilities and charges	11	(736)	(770)
		(736)	(770)
Total assets less liabilities		179	(17)
Taxpayers' equity			
General fund		179	(17)
		179	(17)

The notes that follow on [pages 92 to 108](#) form part of these financial statements.

The financial statements on pages 88 to 108 were approved by the Wales Audit Office Board and authorised for issue on 8 June 2016 and are signed on its behalf by:



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer

10 June 2016

Statement of Cash Flows

for the year ended 31 March 2016

		2015-16	2014-15
	Note	£'000	£'000
Cash flows from operating activities			
Comprehensive net expenditure		5,807	5,293
Non cash: depreciation and amortisation	3	(193)	(177)
Increase/(decrease) in trade and other receivables	6, 7	(550)	164
(Increase)/decrease in trade and other payables	9,10	14	(136)
(Increase)/decrease in distribution of reserves to LG bodies	9,10	2	1,631
(Increase)/decrease in provisions	11	220	221
Net cash outflow from operating activities		5,300	6,996
Cash flows from investing activities			
Purchases of property, plant and equipment	4	35	72
Purchases of intangible assets	5	4	217
Net cash outflow from investing activities		39	289
Cash flows from financing activities			
WCF		(6,146)	(5,974)
WCF repaid		698	337
Net financing		(5,448)	(5,637)
Movements in cash and cash equivalents	8	(109)	1,648

The notes that follow on [pages 92 to 108](#) form part of these financial statements.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2016

	£'000
Balance at 31 March 2014	0
Changes in taxpayers' equity in 2014-15	
Total comprehensive expenditure	(5,293)
WCF finance	5,974
	<hr/> 681
Payable to WCF	(698)
Balance at 31 March 2015	(17)
Changes in taxpayers' equity in 2015-16	
Total comprehensive expenditure	(5,807)
WCF finance	6,146
	<hr/> 322
Payable to WCF ¹	(143)
Balance at 31 March 2016	179

¹ As reported in the Summary of Resource Out-turn for 2015-16 (page 80).

The notes that follow on [pages 92 to 108](#) form part of these financial statements.

Notes to Financial Statements

These financial statements have been prepared in accordance with the 2015-16 FReM, issued by the relevant authorities. The financial statements have been prepared on a going concern basis as set out in Note 17: Events after the reporting period.

The accounting policies contained in the FReM apply EU-adopted International Financial Reporting Standards (IFRS) 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 Wales Audit Office for the purpose of giving a true and fair view has been selected. Significant policies adopted by the Wales Audit Office are described alongside the note to which they refer. They have been applied consistently in dealing with items considered material in relation to the accounts.

The potential impact of IFRS 16 (Leases) issued in January 2016 but not effective until 1 January 2019 is discussed in Note 12.

There are no other new accounting standards issued, but not yet effective, that would have had a material effect on these financial statements had they been applied in this reporting period.

Critical accounting estimates and areas of judgement

- Revenue recognition is based on time charged to projects adjusted where applicable to reflect stage completion of work done.
- Provisions have been made where, in the opinion of the accounting officer, it is more likely than not that a financial liability exists which cannot be accurately estimated at present.

Note 1 (a): Wales Audit Office operating segments

2015-16

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(11,585)	(3,607)	-	(15,192)
Grant	-	(951)	-	(951)
Other income	-	-	(10)	(10)
Total	(11,585)	(4,558)	(10)	(16,153)
Expenditure	11,924	4,221	5,817	21,962
	339	(337)	5,807	5,809

2014-15

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(12,268)	(3,840)	-	(16,108)
Grant	-	(947)	-	(947)
Other income	-	-	(57)	(57)
Total	(12,268)	(4,787)	(57)	(17,112)
Expenditure	12,582	4,480	5,350	22,412
	314	(307)	5,293	5,300

The Wales Audit Office reports income and expenditure on its two main audit functions for which fees are charged and also for activities which are funded directly from the Welsh Consolidated Fund (WCF).

Reconciliation to Statement of Comprehensive Net Expenditure

	2015-16	2014-15
	£'000	£'000
Net expenditure per above analysis	5,809	5,300
Interest receivable	(2)	(7)
Per Statement of Comprehensive Net Expenditure	5,807	5,293

Note 1 (b): Analysis of audit fee income

	2015-16			2014-15		
	Financial Audit	Performance Audit	Total	Financial Audit	Performance Audit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Local Government Audit	5,841	2,217	8,058	6,146	2,556	8,702
Local Government Grant Certification	1,560	-	1,560	2,079	-	2,079
NHS	2,090	1,389	3,479	2,107	1,273	3,380
Central Government Audit	2,094	1	2,095	1,936	11	1,947
	11,585	3,607	15,192	12,268	3,840	16,108

Fees charged for audit work are set in accordance with a Fee Scheme agreed by the Finance Committee of the National Assembly.

Note 2: Other operating income

	2015-16	2014-15
	£'000	£'000
Sundry income ¹	10	57
	<hr/> 10	<hr/> 57

¹ Sundry income includes charges for training provided, personal use of mobile phones and recharges for refreshments.

Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT. This value is assessed by reference to time charges and stage of completion of projects.

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 Note 10). Work done in advance of income received is classed as work in progress (see Note 6). Funding drawn from the WCF is not direct government grant and is credited directly to taxpayers' equity.

Note 3: Other operating costs

	2015-16	2014-15
	£'000	£'000
Accommodation		
Rent lease costs	482	459
Other costs	407	373
Supplies and services	1,598	1,931
Recruitment and transfers	61	62
Depreciation and amortisation	193	177
Professional fees		
Internal audit services	49	30
External audit fees	40	37
Other professional fees	78	78
Travel and subsistence	476	492
Learning and development	225	203
Write off of debts	–	8
	<hr/> 3,609	<hr/> 3,850

Note 4: Property, plant and equipment

	Furniture and fittings	Information technology	Office equipment	Total
2015-16	£'000	£'000	£'000	£'000
Cost				
At 31 March 2015	1,377	272	138	1,787
Additions	-	35 ¹	-	35
Disposals	(81) ²	(1)	(6)	(88)
At 31 March 2016	1,296	306	132	1,734
Depreciation				
At 31 March 2015	907	152	105	1,164
Provided in period	79	35	9	123
Disposals	(79)	(1)	(6)	(86)
At 31 March 2016	907	186	108	1,201
Net book value				
At 31 March 2016	389	120	24	533
At 31 March 2015	470	120	33	623
Asset financing				
Owned	389	120	24	533

¹ Laptop replacement programme.

² Disposal of obsolete furniture and equipment during 2015-16.

	Furniture and fittings	Information technology	Office equipment	Total
2014-15	£'000	£'000	£'000	£'000
Cost				
At 31 March 2014	1,377	223	115	1,715
Additions	-	49	23	72
Disposals	-	-	-	-
At 31 March 2015	1,377	272	138	1,787
Depreciation				
At 31 March 2014	826	137	86	1,049
Provided in period	81	15	19	115
Disposals	-	-	-	-
At 31 March 2015	907	152	105	1,164
Net book value				
At 31 March 2015	470	120	33	623
At 31 March 2014	551	86	29	666
Asset financing				
Owned	470	120	33	623

Fixed assets are held at depreciated replacement cost as an approximation to fair value.

Under the Wales Audit Office'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.

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 (including IT infrastructure)	10 years (or shorter of asset life or length of lease for fittings in leased buildings)
Computer equipment	Three years
Office equipment	Five years

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 depreciated replacement cost.

Note 5: Intangible assets

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 (five years). Amortisation is calculated from the date the intangible asset commences its useful life.

	Total
2015-16	£'000
Cost	
At 31 March 2015	829
Additions	4
Disposals ¹	(354)
At 31 March 2016	<u>479</u>
Amortisation	
At 31 March 2015	577
Provided in period	68
Disposals	(354)
At 31 March 2016	<u>291</u>
Net book value	
At 31 March 2016	<u>188</u>
At 31 March 2015	<u>252</u>
Asset financing	
Owned	<u>188</u>

¹ Discontinued use of time recording and audit management software following implementation of Insight.

2014-15	Total £'000
Cost	
At 31 March 2014	719
Additions	217
Disposals	(107)
At 31 March 2015	<u>829</u>
Amortisation	
At 31 March 2014	622
Provided in period	62
Disposals	(107)
At 31 March 2015	<u>577</u>
Net book value	
At 31 March 2015	<u>252</u>
At 31 March 2014	<u>97</u>
Asset financing	
Owned	<u>252</u>

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.

No material inventories are held.

Note 6: Trade receivables and work in progress

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 issued 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 would be established when there is evidence that the Wales Audit Office will not be able to recover all amounts due in accordance with contracts.

	31 March 2016	31 March 2015
	£'000	£'000
Trade receivables		
Central government	41	102
Local government	257	616
NHS	52	242
External to government	26	18
Work in progress		
Central government	553	455
Local government	703	587
NHS	1	6
External to government	-	140
	<hr/> 1,633	<hr/> 2,166

There are no amounts falling due after one year included in the above figures.

A provision for bad and doubtful debts has not been required in 2015-16 (2014-15: not required).

Note 7: Other receivables

	31 March 2016	31 March 2015
	£'000	£'000
Prepayments and accrued income ¹	548	565
Loans to employees ²	1	1
	<hr/> 549	<hr/> 566

1 Mainly advance payments for rent and other property-related costs.

2 Cycle to work scheme.

There are no amounts falling due after one year included in the above figures.

Note 8: Cash and cash equivalents

Cash and cash equivalents include all funds held in accounts to which the Wales Audit Office has instant access. The Current account includes an overnight interest-bearing facility.

During 2015-16, the Wales Audit Office began the process of transferring all funds to the Government Banking Service in line with the recommendations in Managing Welsh Public Money. The Global Treasury Fund and Euro account were subsequently closed as a result.

	31 March 2016	31 March 2015
	£'000	£'000
Balance at 1 April	2,841	4,489
Net change in cash and cash equivalents	109	(1,648)
Balance at 31 March	<u>2,950</u>	<u>2,841</u>

	31 March 2016	31 March 2015
	£'000	£'000
Current account (Government Banking Service)	1,748	2,128
Current account (Commercial Accounts ¹)	1,202	-
Euro account	-	1
Global Treasury Fund	-	712
	<u>2,950</u>	<u>2,841</u>

¹ Other than a £10,000 balance maintained in a current account, this balance is held in an overnight interest bearing account.

Note 9: Trade payables and other current liabilities

	31 March 2016	31 March 2015
	£'000	£'000
Trade payables ¹	410	585
VAT	61	80
Taxation and social security costs	340	327
Accrual for holiday entitlement not yet taken	519	481
Redistribution of reserves to local government bodies ²	–	2
Other accruals ³	895	582
	<hr/> 2,225	<hr/> 2,057

1 All trade payables (amounts owed to other bodies) are falling due within one year.

2 Accumulated reserves to 31 March 2014 were distributed to local government bodies in accordance with the commitment made in the annual Estimate for 2014-15.

3 The bulk of the other accruals (£623,000) relates to trade payable invoices received post year-end. £260,000 is in respect of pension contributions for March 2016, paid in April 2016.

The Wales Audit Office aims to pay 95 per cent of all undisputed supplier invoices within 30 days of receipt and 84 per cent within 10 days. In 2015-16, 99.3 per cent were paid within 30 days and 84.6 per cent within 10 days.

Note 10: Deferred income

In accordance with accounting standards, we are required to assess the percentage completion of projects (by reference to time charges and an assessment of work in progress) 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.

	31 March 2016	31 March 2015
	£'000	£'000
Deferred income	2,220	2,404
	<hr/> 2,220	<hr/> 2,404

Note 11: Provisions for liabilities and charges

Provisions are recognised when an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and the obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.

	Dilapidations¹	Early retirement and severance²	HMRC	Other	Totals
	£'000	£'000	£'000	£'000	£'000
At 31 March 2015	584	606	66	50	1,306
Provided in year	41	-	21	128	190
Provisions utilised in year	-	(385)	-	-	(385)
Provisions released in year	-	-	(25)	-	(25)
At 31 March 2016	625	221	62	178	1,086

1 The Wales Audit Office uses HM Treasury's discount rate net of CPI at November 2015 for balances of 0-5 years of -1.5 per cent and for 5 to 10 years of -1.05 per cent to calculate this balance.

2 The Wales Audit Office uses HM Treasury's discount rate net of CPI at November 2015 of 1.37 per cent to calculate this balance.

Analysis of expected timing:

	Dilapidations	Early retirement and severance	HMRC	Other	Totals
	£'000	£'000	£'000	£'000	£'000
Not later than one year	70	47	62	171	350
Later than one year and not later than five years	-	174	-	7	181
Later than five years	555	-	-	-	555
	625	221	62	178	1,086

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.

This has been built up through an annual dilapidations charge, calculated by applying an annual dilapidation rate to the floor area of the leased assets. Dilapidation liabilities relating to the cost of restoring alterations made to leased buildings are accounted for by means of a provision set aside in the year the cost was identified, based on estimates provided by independent surveyors. Such provisions are capitalised and depreciated over the shorter of the asset life or the length of the lease.

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. This liability comes to an end in June 2019.

The HMRC provision at the start of the year related to:

- potential underpayment of PAYE tax and national insurance contributions to a contractor who provided services to the Wales Audit Office during the period 1 April 2009 to 31 March 2013;
- potential underpayment of PAYE tax and national insurance contributions in respect of expenses paid to some Wales Audit Office staff prior to 2011; and
- potential underpayment of PAYE tax and national insurance contributions in respect of the Employee Death in Service benefit.

The Wales Audit Office has now reached agreement with HMRC in respect of the first two points above. This agreement determined that, after taking into account a payment of £90,000 paid on account in 2012, no liability was outstanding and a balance of £42,518 was owed to the Wales Audit Office.

Agreement has yet to be reached regarding any potential liability in respect of the Employee Death in Service benefit and hence this provision has been retained and increased to reflect potential liability accruing in the year.

The car scheme provision reflects a commitment to compensate staff who have agreed to a buy-out of terms and conditions relating to the provision of leased cars and transport allowance.

Note 12: Operating leases

The Wales Audit Office holds operating leases for cars and its operational offices. 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.

There were aggregate minimum lease payments at 31 March 2016 in respect of non-cancellable car leases:

	31 March 2016	31 March 2015
	£'000	£'000
Within one year	21	189
Within one to five years	204	226
	225	415

There were aggregate minimum lease payments at 31 March 2016 in respect of four office accommodation leases¹⁸:

	31 March 2016	31 March 2016	31 March 2015	31 March 2015
	£'000	Number of properties	£'000	Number of properties
Within one year	452	4	440	3
Within one to five years	1,634	2	1,563	2
Over five years	792	2	1,042	1
	2,878		3,045	

Office accommodation leases are subject to periodic rent reviews.

IFRS16 issued in January 2016 but not effective until 1 January 2019, requires that all leases with a lease term of more than 12 months be recognised as assets and liabilities in financial statements. It is not yet known if this standard will be adopted within the FrEM; if it had been adopted for 2016-17 there would have been an increase to both assets and liabilities of £3.073 million.

¹⁸ The Wales Audit Office has three operational offices at Cardiff, Swansea and Ewloe. A new lease was signed in March 2016 for an office at Abergele which will replace the Ewloe base in June 2016.

Note 13: Capital commitments

There were capital commitments of £10,000 for items ordered but not yet received at 31 March 2016 (31 March 2015: none).

Note 14: Losses and special payments

There were no special payments or disclosable losses in 2015-16 (2014-15: none).

Note 15: Derivatives and financial instruments

IFRS 7 Financial Instruments Disclosures requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Owing to the nature of the Wales Audit Office'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 Wales Audit Office can borrow funds for short term financing purposes, the office has not been required to do so in this financial year. The Wales Audit Office can also invest surplus funds, which has been done through an overnight interest-bearing account during the year. 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 risk appetite, and the backing of the WCF, the Wales Audit Office is not exposed to significant liquidity risks.

Interest rate risk

The Wales Audit Office's financial assets and liabilities are not exposed to interest rate risk.

Foreign currency risk

The Wales Audit Office'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 converted 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, its sponsored and related public bodies, NHS Wales and local government bodies in Wales. The Wales Audit Office charges fees under legislation in accordance with an approved Fee Scheme and is therefore not exposed to any material credit risks.

Fair values

There is no difference between the book values and fair values of the Wales Audit Office's financial assets and liabilities as at 31 March 2016 (31 March 2015: nil).

Note 16: Related party transactions

The Wales Audit Office is a body corporate established under statute and has had material transactions with the Welsh Consolidated Fund and with bodies audited by the Auditor General as disclosed in the Remuneration Report.

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. Information about key management personnel is included in the Remuneration Report.

Note 17: Events after the reporting period

The Wales Audit Office works to annual funding arrangements by statute. Although voted funding has only been approved for nine months after the date of signing these statements, an Estimate for the 2017-18 financial year will be presented to the Finance Committee of the National Assembly in the autumn of 2016-17 and there is no reason to believe that funding will not be approved for that financial year.

Glossary of Terms

Accruals basis	The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
Amortisation	The apportionment of the cost of an intangible fixed asset over its useful life
Assets	Something that the organisation owns or uses eg, equipment or software rights.
Capital expenditure	Spending on non-current (fixed) assets
Current assets	An asset that is expected to be converted to cash within the next twelve months
Current liability	A liability that is expected to be settled within the next 12 months
Deferred income	Represents income that has been billed but not yet recognised in the Statement of Comprehensive Net Expenditure
Depreciation	The apportionment of the cost of a tangible fixed asset over its useful life
Estimate	For the Wales Audit Office the annual Estimate of Income and Expenses approved in plenary by the Budget Motion. The National Assembly Finance Committee provides a report to support this. Also referred to as the approved budget.
Fixed assets	An asset that is held by an organisation for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities. Examples are equipment, vehicles, land and buildings.
Going concern basis	Financial statements are prepared on this basis assuming that the organisation will continue operating into the foreseeable future.
Intangible fixed asset	An asset, such as a right, that cannot be touched
Leasing	Acquiring the use of an asset through a rental agreement
Prepayments	An amount paid for in advance such as insurance premiums or rent in advance. Initially recognised as an asset, then transferred to expense in the period when the benefit is enjoyed.

Provision	Liability of uncertain timing or amount
Taxpayers' equity	The net assets of the organisation
Trade payables	Amounts due for payment to suppliers of goods and services
Trade receivables	Amounts due from clients
Tangible fixed asset	A fixed asset (also called a non-current asset) which has a physical existence. Used to differentiate it from an Intangible fixed asset.
Welsh Consolidated Fund	The fund used by the National Assembly to hold sums voted by Parliament which are then allocated via a Budget Motion to the Welsh Government, Auditor General for Wales, National Assembly Commission and Public Service Ombudsman for Wales.
Work in progress	Work done and recognised as income in the accounts which has yet to be invoiced to clients.

Appendices

Appendix 1: Programmes of work delivered in 2015-16

The Auditor General's programme of audit work delivered at local government bodies

Audits of accounts

22 unitary authorities
3 fire and rescue authorities
3 national park authorities
4 police and crime commissioners
4 chief constables
8 pension funds
A number of other smaller local government bodies including joint committees and harbour authorities
Audits of over 740 town and community councils on a limited assurance basis

Certification of grant claims and returns

Up to 25 schemes worth approaching £3 billion and involving around 450 individual claims

Improvement audits and assessments

22 unitary authorities (including six more detailed corporate assessments)
3 fire and rescue authorities
3 national park authorities

Studies and summary reports completed or substantially completed

Financial resilience of councils in Wales
Safeguarding – governance arrangements
Financial management and governance in community and town councils 2013-14
Addressing health and social care demand – supporting the independence of older people
Delivering with less – leisure services
Local government accounts 2014-15
Financial management and governance in local councils 2014-15

Ongoing studies

Financial position and resilience
Council funding of third sector services
The strategic approach of councils to income generation and charging for services
The effectiveness of local community safety partnerships

The Auditor General's programme of audit work delivered at NHS bodies

Audits of accounts

7 local health boards
3 NHS trusts
Local health board summarised accounts
NHS trusts summarised accounts
NHS charitable funds

Local performance audit work

7 local health boards
3 NHS trusts

Structured assessments

7 local health boards
3 NHS trusts

Studies completed or substantially completed

Orthopaedic services
Medicines management in the acute sector
Outpatient services: follow-up appointments
IT infrastructure and capacity
Hospital catering and patient nutrition (follow-up study)
Governance arrangements at Betsi Cadwaladr University Health Board (follow-up study with Healthcare Inspectorate Wales)

Ongoing studies

Radiology services
NHS Consultant Contract (follow-up study)

The Auditor General's programme of audit work delivered at central government bodies

Welsh Government accounts

Welsh Government Consolidated Accounts
Non-domestic Rating Account
Welsh Consolidated Fund receipts and payment account
Whole of Government Accounts
Approval of payments out of the Welsh Consolidated Fund

Accounts of Welsh Government sponsored bodies

Arts Council of Wales
Arts Council of Wales Lottery Fund
Care Council for Wales
Higher Education Funding Council for Wales
National Library of Wales
National Museums and Galleries of Wales
Natural Resources Wales
Sports Council for Wales Main and Trust Accounts
Sports Council for Wales Lottery Fund
Local Democracy and Boundary Commission for Wales
Qualifications Wales

National Assembly for Wales accounts

National Assembly for Wales Commission
Assembly Members Pension Fund

Accounts of commissioners, inspectors and regulators

Children's Commissioner for Wales
Older People's Commissioner for Wales
Public Services Ombudsman for Wales
Welsh Language Commissioner
Estyn
General Teaching Council for Wales

Certification of grant claims and returns

European structural fund claims from the Welsh Government and its sponsored bodies worth around £300 million

Welsh Government companies

Hybu Cig Cymru
Careers Choice
Life Sciences Hub
Sector Development Wales

The Auditor General's programme of audit work undertaken for consideration by the Public Accounts Committee

Value for money studies, summary reports or reactive examinations completed

Welsh Government investment in next generation broadband infrastructure
Regional education consortia
Orthopaedic services
Primary Care Prescribing – summary of local audit findings – memorandum for the Public Accounts Committee
Governance in the NHS in Wales – memorandum for the Public Accounts Committee
Regeneration Investment Fund for Wales
Picture of public services
Welsh Government acquisition of Cardiff Airport
NHS waiting lists and private practice
Development of Natural Resources Wales
Wales Life Sciences Investment Fund
Operating theatres

Summary reports in progress

Hospital catering and patient nutrition – follow-up
National Fraud Initiative
Medicines management

Ongoing value for money examinations

Flood and erosion risk management
Rail services
Public procurement and the National Procurement Service
Welsh Government oversight of further education institutions' finances and delivery
NHS Wales Informatics Service
Supporting People programme
Waste management
School places and capital investment in schools
Access to public services with the support of specialist interpretation and translation

Ongoing reactive examinations

Governance review of the National Library of Wales
Governance and oversight of arms-length bodies

Our programme of good practice work

Shared learning seminars delivered

- Trustees
- Continued independence of older people
- Service user experience
- Transferring knowledge to create continuity
- Staff trust
- Making a reality of integration
- The future of parks and their positive impact on well-being
- Faster closure of local government accounts
- Whistleblowing
- Sharing personal data to better serve citizens and communities
- Managing and improving business operations
- Well-being of Future Generations Act

Good practice guides delivered

- Continued independence of older people

Shared learning webinars delivered

- Staff involvement and engagement
- Fighting procurement fraud

External facilitation of shared learning and community support

- Academi Wales summer school
- NHS Wales Finance Directors Network
- Good Practice Wales
- Sustainable Futures Commissioner
- Public Health Wales
- Welsh Local Government Association
- All Wales Continuous Improvement Community
- Assets Cymru

The Auditor General's programme of joint working activity

Joined up delivery

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake value for money studies of regional education consortia

Working with Care and Social Services Inspectorate Wales and the Older People's Commissioner on a study on the independence of older people

Annual certification of the accounts of the European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD)

Follow-up joint review with Healthcare Inspectorate Wales of governance arrangements at Betsi Cadwaladr University Health Board

Membership of external working groups

EURORAI

International Integrated Reporting Council's Public Sector Integrated Reporting Network

Public Audit Forum

Financial Reporting Advisory Board

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards Panel

Inspection Wales initiative

DWP Housing Benefit and Welfare Reform UK Inspectorates liaison group

Youth Justice Board/HMIP 'Keeping in Touch' liaison panel

Commissioned audit work

Audit of EU grant claims for the University of Glamorgan

Chief Auditor to and audit of the accounts of the Government of Anguilla

Waste management and trade refuse benchmarking groups

Participation with observer status on external working groups

Partnership Council for Wales

Reforming Local Government Programme Board

Well-being of Future Generations (Wales) Bill advisory and reference group

Welsh Government Treasury Implementation Board

Finance Minister's Welsh Tax Forum

CSSIW Local Authority Inspection Framework Board

Local Government Data Unit Board

Fire and Rescue Service National Framework Project Board

Public Appointments Working Group

Appendix 2: Progress made during the year towards achieving our three-year priorities

Commentary on the progress made towards achieving our priorities for local government audit work

Three-year priorities	When	Progress	Commentary
Further enhance our local assessments of financial health and quality of financial planning and continue to provide an annual all-Wales overview	2015 and each year thereafter	On track	Local assessments of local government financial health have been undertaken at all Unitary Authorities, and an all-Wales overview report is due to be published in June 2016.
Better integrate the planning and reporting of our local audit of accounts and performance audit work, particularly in relation to examining the effectiveness of governance arrangements, and further align our work with that of other external review bodies	2015-2016	Complete	Work was undertaken in 2015-16 to better integrate the planning of our local audit work programmes. Further work will be undertaken following consideration of stakeholder responses to the Auditor General's consultation on his approach to audit work to be carried out under the Well-being of Future Generations (Wales) Act 2015.
Prepare for the introduction of faster closure of local government accounts, and for the impact of changes to the grant funding regime in Wales, whether arising from new terms and conditions set by the Welsh Government or the introduction of Universal Credit by the Department for Work and Pensions	2015-2016	On track	We have commenced work on preparing for faster closure in local government. The Welsh Government has issued a consultation document setting out the proposed timetable for earlier closure. We have already taken account of a reducing level of grant certification in our financial and workforce planning for 2016-17 and beyond. We will shortly commence our preparations for Universal Credit, which will not be fully introduced into Wales until 2020.
Modify our framework for the audit of town and community councils to provide more informative reporting on the effectiveness of governance arrangements	2016	On track	Our framework for the audit of town and community councils has now been modified, and new work in this area commenced at the beginning of the 2016 calendar year. Our first audit reports under the new arrangements will be produced in autumn 2016.
Examine local government bodies' preparedness and planning for reform and mergers	2016-2018	Yet to commence	Our work in this area will commence after the local government reform legislation has been confirmed. The theme of fitness for transformation and change has been included in our 2016-17 local government audit work programmes.

Commentary on the progress made towards achieving our priorities for NHS audit work

Three-year priorities	When	Progress	Commentary
Establish an NHS Expert Panel, including academics and health professional bodies, to advise on all aspects of our health audit programme	2015	Complete	An Expert Panel has now been established and met in late 2015 to advise us on our 2016 and longer term programme of local and national performance audit work in the health sector.
Further enhance the content and impact of our reports for NHS bodies on the effectiveness of governance arrangements to better support both corporate and service improvement	2015	Complete	An updated Memorandum on Governance in the NHS in Wales was prepared for the Public Accounts Committee for its meeting in April 2015, to support the Committee's inquiries. The effectiveness of governance arrangements is now routinely monitored as part of our annual structured assessment work at all 10 NHS bodies, with local tailoring to focus on progress made against previously identified areas of improvement.
Participate fully in applying the new protocol for identifying and responding to serious issues affecting service delivery, quality and safety of care and organisational effectiveness across NHS Wales	2015 and each year thereafter	On track	Continued engagement in the tri-lateral NHS Wales protocol arrangements with both the Welsh Government and Healthcare Inspectorate Wales. Scheduled and 'ad hoc' discussion mechanisms have been operating successfully in practice, and all three parties jointly reviewed the effectiveness of the protocol in late 2015.
Draw on local audit work to present a national picture of relative financial and service performance by NHS bodies	2015 and each year thereafter	Complete	For 2015-16 a Picture of Public Services report, published in December 2015 replaced the annual NHS finances report. Structured assessment work at local NHS bodies will be undertaken during 2016 to support our national reporting.
Publish an audit review of the initial operation of three-year NHS integrated delivery plans	2017	On track	Detailed planning and scoping for this project commenced in April 2016, and the review will build on work undertaken in 2015-16 as part of our programme of NHS audit work.

Commentary on the progress made towards achieving our priorities for central government audit work

Three-year priorities	When	Progress	Commentary
Publish an annual overview report on the results of audit work undertaken within the central government sector	2015 and each year thereafter	On track	For 2015, our Picture of Public Services report included central government sector coverage.
Explore with the Welsh Government the potential for undertaking a cyclical programme of governance and performance audit reviews across each of the Welsh Government departments and sponsored bodies	2015-2016	Yet to commence	Work on this priority will commence after the Assembly elections in May 2016.
Provide the National Assembly's Finance Committee and Public Accounts Committee with an audit commentary on preparedness for the introduction of fiscal powers and on progress made throughout the planning and implementation stages	2015-2018	On track	The 'go live' date for fiscal devolution to Wales has now been confirmed as 1 April 2018. Based on the Scottish experience, we anticipate producing an initial Auditor General commentary in November 2016, with a further update report in September 2017. In the meantime, we will continue to liaise closely with the National Assembly's Finance Committee to support their ongoing scrutiny.
Evaluate and prepare for the accounting and audit implications of the implementation of Welsh fiscal powers, together with the UK Government's impending response to the 'Silk 2' report	2015-2018	On track	We have commenced discussions with both the National Audit Office and Audit Scotland on the accounting and audit implications of fiscal devolution for Wales and are receiving excellent co-operation. We also have an observer on both the Welsh Government's Programme Board and its Tax Forum, and so we have access to real-time intelligence to help inform our assessments of the accounting and audit implications.

Commentary on the progress made towards achieving our priorities for Public Accounts Committee audit work

Three-year priorities	When	Progress	Commentary
Put in place discrete arrangements to strengthen our forensic audit capacity and ensure timely responses to issues of public concern without detracting from our statutory audit work	2015-2016	Complete	The new investigative studies team is fully staffed and engaged in delivering forensic audit work. We have engaged closely with our counterparts at the National Audit Office who have similar arrangements, to learn from their experiences.
Increase the impact of, and engagement with, our public reporting through enhancing the design of our reports and broadening our communication channels	2015-2017	On track	Our Communications Team have redesigned our reporting templates to improve accessibility for on-line readers. Following providing training for staff on 'data storytelling', we are making greater use of infographics and social media to promote the key messages in our reports. We have also increasingly been providing good practice guides or checklists to supplement and support the messages in our main audit reports.
Enhance our work that examines whole systems and the linkages between service providers, including in particular the interface between health and social care provision	2015-2018	On track	Forward planning for the next performance audit cycle of work was undertaken over the summer in 2015. Following consultation, our programmes of performance audit work for 2016 and subsequent years include a series of cross-cutting studies that examine whole systems and will require integrated working across audit teams.
Better understand the expectations and requirements of the Public Accounts Committee, through surveying members on their views of our support for their scrutiny work, and seeking feedback on individual audit reports	2016-2017	Yet to commence	Yet to commence. However, preparatory work is already underway to consider the optimum approach and timing. Following the 2016 Assembly elections, we aim to develop a constructive relationship with the new Public Accounts Committee and identify ways to further enhance support for their scrutiny work.
Raise awareness of the work of the Auditor General and Wales Audit Office amongst Assembly Committees, including through contributing to the induction of new Assembly Members after the 2016 Assembly elections	2016-2017	On track	Discussions have been held with the Assembly Commission to ensure coverage of the role and work of the Auditor General as part of the induction arrangements for new Assembly Members. We have also engaged with Inspection Wales to develop a briefing intended for new Assembly Members and their advisors on the role and work of audit, inspection and regulation.

Commentary on the progress made towards achieving our priorities for facilitating the exchange of good practice

Three-year priorities	When	Progress	Commentary
Encourage improvements in public services by capturing at least 50 pledges to action from an annual programme of 12 shared learning events, and monitor their translation into action	2015 and each year thereafter	On track	We captured pledges to action at the end of each shared learning seminar. We also piloted a new 'Random Coffee Trials' approach during 2015-16, through which we facilitated follow-up conversations between delegates on how they are implementing pledges to action. The success of this approach is currently being evaluated.
Develop programmes of good practice work on key challenges facing public services including governance, risk management, strategic financial management and planning for the long term	2015 and each year thereafter	On track	Recent seminars and the planned programme for 2016-17 address a number of key challenges facing public services, including: governance and the Well-being of Future Generations (Wales) Act; digital delivery; workforce planning; partnership working; and data sharing.
Invest in developing and supporting self-sustaining 'communities of interest' to build upon the momentum generated by our good practice and shared learning activity	2015 and each year thereafter	On track	Work is being undertaken on an ongoing basis with seminar partners to develop communities of interest to build on momentum generated at events. A review of approaches to behaviour change across public services is currently being delivered in an innovative way, using good practice methods and with a strong focus on the development of communities of practice.
Increase the proportion of audit projects that incorporate good practice and shared learning activity and outputs	2015 and each year thereafter	On track	Links between the good practice team and our audit teams continue to be strengthened, with over half of the events delivered in 2015-16 and those planned for 2016-17, being directly linked to audit projects or associated workstreams.

Commentary on the progress made towards achieving our priorities for joint working

Three-year priorities	When	Progress	Commentary
Put in place arrangements for more effective management of correspondence received from the public or other interested parties about matters relevant to the Auditor General's functions, including providing swifter and more substantive responses	2015	Complete	New guidance for the public on corresponding with the Auditor General and Wales Audit Office has been developed and published on our website. Revised internal processes to support more effective correspondence handling have been implemented. Our annual plan for 2016-17 includes a priority to improve the management information to support the new correspondence arrangements.
Further enhance our sector understanding and relationships with audited bodies to both better inform our work programme and contribute to developments and improvements across the public sector	2015 and each year thereafter	On track	The work of our Sector Leads is strengthening external engagement at a strategic level, particularly through observer participation in various groups. The newly established Engagement Director role is also helping to further enhance engagement with audited bodies.
Engage more effectively with the public, their representatives and other stakeholders to gauge the impact of our work, assess our performance and measure our success	2015 and each year thereafter	Complete	In 2015-16 we established and are now implementing a new stakeholder engagement strategy. This includes a range of activity, including holding structured interviews with senior stakeholders and attending at a range of public events, to extend our reach and assess our impact. An impact task and finish group has also been established and has been liaising with colleagues at Audit Scotland and the National Audit Office to develop our approach to maximising the impact of our work.
Encourage participation in the National Fraud Initiative (NFI) from a greater range of bodies in receipt of public funding, and expand the information used in the data matching exercise	2015-2016	On track	In 2015-16, we have expanded the information used in the NFI data matching exercise by providing participants with unlimited access to a new Application Checker tool, which is designed to help identify potentially fraudulent or erroneous applications for benefits, services or employment at the application stage. We have also written to Welsh Government sponsored bodies, housing associations and universities to make them aware of the benefits of participating in the National Fraud Initiative and that the Auditor General does not charge for this service. We also offer visits and demonstrations to those bodies.
Further enhance the efficiency and effectiveness of audit, inspection and regulation in Wales through working with other external review bodies to streamline our reviews and strengthen joint working and the sharing of intelligence and resources	2015-2018	On track	Over the past year, we have worked jointly with our Inspection Wales partners on a range of audit products, thereby sharing intelligence and resources. These include a review of regional education consortia (with Estyn), a study into the independence of older people (with CSSIW), and our ongoing governance work at Betsi Cadwaladr Health Board (with Healthcare Inspectorate Wales).

Commentary on the progress made towards achieving our priorities for our governance and leadership

Three-year priorities	When	Progress	Commentary
Strengthen our workforce strategy to meet current demand and ensure we are able to anticipate and respond to future legal, environmental, and professional developments, including through effective succession planning	2015-2016	On track	A strategic workforce planning project was commenced in 2015; the initial phase will be completed by 31 December 2016. A series of key milestones have been agreed and progress is being reported to the Management Committee and Board.
Strengthen leadership capability, including through the use of 360° performance reviews for senior staff and supporting reviews of Board effectiveness	2015-2018	On track	A revised performance appraisal scheme for Senior Leadership Team members was agreed and implemented in 2015-16, and included the use of 360° reviews. Proposals for a Senior Leadership Development Programme are currently being explored with external stakeholders including Academi Wales.
Monitor the evolution of our unique governance arrangements, with a view to sharing knowledge, learning and experience	2015-2018	On track	Commentary provided in the Governance Statement
More effectively use external benchmarking and comparison to assess our performance and measure our success and impact	2015-2018	On track	We have been working with the other UK audit agencies to further develop our use of external benchmarking as part of a broader exercise to improve the quality of our management information.

Commentary on the progress made towards achieving our priorities for our use of resources

Three-year priorities	When	Progress	Commentary
Make better use of technology and information management to rationalise and streamline our business systems and processes, through implementation of a rolling three-year ICT plan	2015-2018	On track	Over the reporting period we have implemented a new travel and expenses system, a more effective and integrated time recording and audit data management IT platform. We have also made successful use of cloud technology to support collaborative work with audit suppliers, and are exploring the use of cloud storage solutions for our finance and email systems to secure improved resilience.
Make further arrangements to establish the Wales Audit Office as a recognised training ground for pan-public sector accountants	2015-2017	On track	A bid for additional funding to support this initiative was included in our Estimate for 2016-17 and was approved by the Finance Committee. The first secondments under the new arrangements are planned to start in autumn 2016.
Keep a tight grip on costs, seek further efficiencies and keep fees as low as possible	2015-2018	On track	Commentary provided in the financial management and efficiencies section of the performance analysis
Make better use of our physical and information assets to support the delivery of our objectives	2015-2018	Complete	Staff information has been substantially rationalised in 2015-16 through the development of a new Corporate Handbook. A new asset management plan is also currently under development.
Demonstrate our corporate social responsibility through our work on: <ul style="list-style-type: none"> improving environmental stewardship; promoting a healthy lifestyle and good work-life balance amongst our staff; advancing equality of opportunity, eliminating discrimination and fostering good relations; and promoting use of the Welsh language and meeting the new Welsh language standards 	2015-2018	On track	Commentary provided in the environmental stewardship, employee well-being, equality and human rights and promoting the Welsh language sections of the performance analysis.

Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan

Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

WALES AUDIT OFFICE

Final Audit Findings Report

Year ended 31 March 2016

Presented to those charged with Governance
By RSM UK Audit LLP

on 6 June 2016



CONTENTS

1	Introduction and coverage.....	2
2	Audit and accounting issues identified at planning stage	3
3	Audit and accounting issues identified during the audit.....	5
4	Regularity issues identified during the audit	6
5	Unadjusted/adjusted misstatements	8
6	Significant deficiencies in internal control	9
7	Significant accounting policies, disclosures and estimates	11
8	Uncertainties, risks, exposures, judgemental issues and going concern	12
9	Fees	13
10	Independence	13
	Appendix A - Draft letter of representation.....	14

This report has been prepared for the sole use of Wales Audit Office and must not be disclosed to any third party, or quoted or referred to, without our written consent. No responsibility is assumed to any other person in respect of this report.

1 INTRODUCTION AND COVERAGE

This report summarises our key findings in connection with the audit of the financial statements of Wales Audit Office in respect of the year ended 31 March 2016.

The scope of our work has already been communicated to you via our Audit Plan document dated 25 February 2016.

A summary of adjusted and unadjusted misstatements identified during the audits has been prepared and is included in Section 5.

We consider that the audit approach adopted will provide the Audit Risk and Assurance Committee (ARAC) with the required confidence that a thorough and robust audit has been carried out and can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit report provided in the Audit Plan previously communicated to you.

Materiality is a judgemental area since it has both quantitative and qualitative elements. It is necessary to consider not only the impact of an error on the financial statements as a whole, but also on the individual accounting items affected, taking into account the level of risk associated to that item. Additionally, the cumulative impact of all unadjusted errors must be considered. As a guide our performance materiality used was £142,000.

2 AUDIT AND ACCOUNTING ISSUES IDENTIFIED AT PLANNING STAGE

Management over ride of internal controls

Key area of audit focus	Systems of internal control are designed to mitigate inherent risks of error within the core control systems to an acceptable level. By nature, a management override or by-pass of controls cannot be eliminated by the implementation of controls and therefore as part of our audit we will perform additional tests of detail to address this risk.
Our approach	<p>We will test the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements, tracing selected entries back to source documentation.</p> <p>We will review significant accounting estimates and policies which could involve bias resulting in a material misstatement.</p> <p>We will discuss the basis and business rationale for any significant non-routine or contentious transactions which come to our attention during the course of our audit and will fully report the outcomes of our testing in our audit findings report.</p>
Response	The testing was completed as planned with no significant issues identified to report to management.

Income recognition, WIP and deferred income

Key area of audit focus	The recognition of income, WIP and deferred income is considered to be a high risk due to the level of judgement applied to the stage of completion of an audit assignment.
Our approach	We will select a sample of projects that have commenced throughout the year and test the revenue recognised with reference to the stage of completion of the assignment in order to determine that the revenue recognition is appropriate and consequently whether the WIP and deferred income are appropriately stated.

Income recognition, WIP and deferred income

Response

In the prior year we recommended that the Office should consider actual out-turn on projects overall and factor this in when calculating stage completion for revenue recognition.

Management have reduced revenue recognised for projects where costs were expected to exceed the quoted fees.

We have reviewed costs on open projects at the year end and on average costs exceed the budget upon which the revenue is based by approximately 4%.

If this was applied to the remaining projects, revenue would be reduced by further £193k. However as the unadjusted amounts estimated in the prior year was £206k the in year net impact is only £12k in the current year. This amount has been included as a potential adjustment in section 5 below.

As in prior years we have estimated the potential amount of refund that would be due when projects which are currently in a deferred income position complete. A potential reclassification has been included in section 5 below.

Reputation

Key area of audit focus

Due to public interest in the financial statements there is a desire to maintain reputation and demonstrate exemplary financial management. Accounting judgements may be influenced by the desire to demonstrate good financial management and remain within the Estimate.

Our approach

Independent technical review of the accounts and key judgement areas.
Review of judgemental aspects in year-end balances particularly focusing on any;

- Round sum provisions
- Estimates
- Recoverability of debtors
- Disclosure of remuneration

Response

No significant issues were identified to be reported to management.

3 AUDIT AND ACCOUNTING ISSUES IDENTIFIED DURING THE AUDIT

Caerphilly Contingent liability / CIPFA

Issue

A complaint has been made to the Auditor General regarding an appointed auditor's public interest report on a local authority. The report resulted in the suspension of three local authority employees and disciplinary and criminal investigations.

Criminal charges against the three employees were dismissed, but the disciplinary process has not yet concluded.

As part of the process of responding to the criminal investigation, the Office identified that a formal record of the approval of the Chartered Institute of Public Finance & Accountancy (CIPFA), necessary to make a person eligible for appointment as an auditor, could not be located. Legal advice, however, confirms that the actions of CIPFA qualified individuals in the role of appointed auditor are valid.

There has been media coverage of this issue.

Resolution

No disclosure is required in the financial statements as no claim has been made against the Office. Furthermore, the legal advice indicates that no claim is likely in practice and that it is not clear that there is a means by which it could be raised. The position could be defended if a claim were made.

It is considered remote that a claim will be made.

4 REGULARITY ISSUES IDENTIFIED DURING THE AUDIT

Gifts and hospitality policy

Issue	We noted as part of our review of the gifts and hospitality policy that alcoholic drink gifts are to be auctioned off with the proceeds going to a nominated charity. We identified one instance where this policy was not followed. The amounts involved totalled £25.
Resolution	Whilst the policy was not followed we note that the gifts had been appropriately declared by the individuals concerned. This is considered trivial and does not impact our opinion.

Refunds

Our approach	Under the provisions of the Public Audit Wales Act the WAO is not permitted to charge audit fees in excess of cost. In such cases where the cost of conducting the audit is lower than the fee a refund is required to the audited body. It is WAO policy to issue these refund once the project has closed. We noted one instance where this policy was not followed. The value of the refund is £6k.
Recommendation	Controls over refunds should be reviewed to ensure that similar commissions do not happen in future.
Response	Controls are now in place to identify all potential refunds. The accounts have been restated to take this refund into account.

Contractors

Our approach	<p>The Office places all self-employed contractors on the payroll to ensure that there is no question that could be raised by HMRC regarding employment status.</p> <p>As a result the Office pays employers national insurance at 13.8% over and above the contractor standard rates. In the year the additional payroll costs for all contractors were £42k.</p> <p>This is not material to our regularity opinion.</p>
Recommendation	Management should consider whether the approach taken represents value for money or whether processes should be put in place to either reduce the paid rates or to review the contractor's specific circumstances and evaluate if they would be deemed an employee or a contractor under the HMRC rules in order to prevent incurring avoidable costs.

Contractors

Response

The office consider that value for money has been addressed in the setting of the contractor rates as these are compared to the in-house cost of completing the work.

A process will be put in place to assess employment status for new self-employed contractors.

5 UNADJUSTED/ADJUSTED MISSTATEMENTS

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement.

We have not disclosed below those items that we consider to be "clearly trivial" in the context of our audit. For this purpose we consider "clearly trivial" to be any matter less than £5k individually and £10k in aggregate.

We advised management of all these misstatements throughout the audit and requested management to correct them.

Wales Audit Office

	Profit (£'000)	Net assets (£'000)	
Adjusted misstatements	Dr/(Cr)	Dr/(Cr)	
Deferred income	-	206	Being the judgemental reclassification of potential refunds included within deferred income.
Trade and other payables	-	(206)	
Training Costs – Operating Costs Accruals	11	(11)	Being the accrual of training costs in January to March 2016 that were invoiced in April 2016.
Income	6	-	Being the adjustment for additional client refunds identified.
Trade and other payables	-	(6)	
Other operating expenses	41	-	Being the late client adjustment to reinstate the previously released HMRC provision for the death in service settlement.
Staff costs	21	-	
Provisions	-	(62)	
Total	79	(79)	
Unadjusted misstatements Factual	Dr/(Cr)	Dr/(Cr)	
Unadjusted misstatements Judgemental	Dr/(Cr)	Dr/(Cr)	
WIP	-	12	Judgemental revenue adjustment for stage completion ¹ .
Income	(12)	-	
Total unadjusted	(12)	12	

¹ The actual adjustment impacting current year out-turn is £193,000. The adjustment above takes into account the unadjusted error in the prior year of £206,000. Management consider that they currently have appropriate work in progress provision in place and do not wish to adjust for this judgemental potential. We accept this as the adjustment would not be material to the reported result and is an estimate only.

6 SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

There were no significant control deficiencies identified. This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

Internal control recommendation not considered as significant in the context of ISA 265

We have set out below internal control recommendations which came to our attention during the course of our audit work.

Segregation of duties

Fact and potential consequence	<p>A member of the finance team is the administrator for COA and the bank payment system and therefore can both submit payments and authorise payments.</p> <p>The other members of the finance team are split into those who can submit and those who can authorise and thus providing sufficient segregations of duties. This has been previously identified by the finance team and as such this member of staff's bank payment card was being held by the director of finance to mitigate the risk. The card is provided to the member of the finance team if required and any activity is monitored.</p>
Possible action	<p>We recommend that this member of the finance team is removed as administrator and in their place the director of finance becomes the administrator for the system. The director of finance will be administrator, however as he does not have a payment card will not be able to make payments. As a result no member of the finance team could process an entire transaction alone.</p>
Management response	<p>The recommendation was accepted by management.</p>
Timing of implementation and responsibility	<p>Changes have already been implemented.</p>

Firms invoices

Fact and potential consequence	<p>We noted that one of the external firms used had effectively issued credit notes for c. £110k of work which had been recognised in the prior year.</p> <p>Overall the correct invoicing to the end users had been invoiced over the duration of the work but the timing of revenue recognition and invoicing was split incorrectly over the two years.</p> <p>There is a risk that revenue is recognised inappropriately.</p>
---------------------------------------	--

Firms invoices

Possible action	<p>Firm's statements should be closely reviewed and credit balances should be challenged and explanations sought.</p> <p>Some form of budgeting and review should be put in place for this outsourced work so that costs can be challenged if they are not in line with budget expectations.</p>
Management response	<p>We have historically relied on returns provided by these professional firms to determine the amount of income and expenditure to be recognised in our Accounts. This instance has called this approach into doubt, although the particular Firm involved is no longer contracted to undertake work for the WAO. We will need to discuss with the Financial Audit Practice a reasonable approach to checking the value of work completed by Firms that is consistent with their contractual terms.</p>
Timing of implementation and responsibility	<p>Director of Finance / Head of Financial Audit Practice. By December 2016.</p>

WIP provisioning

Fact and potential consequence	<p>Income recognition is based upon the costs incurred and reflected on the system. If these exceed the fee the revenue recognition is capped at the fee.</p> <p>This method is reliant on audit managers identifying and notifying finance of variations to budget. We are not aware that all managers compare costs to date against budget and re-look at costs to complete.</p> <p>As a result the revenue recognition may be inappropriate.</p>
Possible action	<p>As a minimum a quarterly process should be put in place for audit managers to compare actual costs to budgeted costs to date and to re-consider expected costs to complete on all their jobs.</p> <p>Finance should be notified of all variations above a de – minimus value to allow the revenue recognition to be amended.</p>
Management response	<p>Agreed. Managers are currently asked each month to check that income recognised is consistent with their knowledge of the extent of project completion. We will implement tighter quarterly controls in partnership with Practice Business Managers.</p>
Timing of implementation and responsibility	<p>Finance Team. June 2016.</p>

7 SIGNIFICANT ACCOUNTING POLICIES, DISCLOSURES AND ESTIMATES

Accounting policies and estimates

Accounting disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the Companies Act 2006. The following disclosure matters were brought to your attention and subsequently reflected in the revised financial statements:

1. The draft financial statement included an incorrect operating lease commitment for rent payable for the extended Ewloe lease. The commitment should have been £10k higher.
2. The draft financial statements omitted the disclosure of a capital commitment of £10k at year end for IT equipment.
3. The draft financial statements did not include cash and cash equivalents split into funds held commercially and funds held with the Government Banking Service as required by the FReM.
4. The draft financial statements disclosed the real increase in pension and related lump sum at pension age amounts in bands of £5k rather than the £2.5k required by the FReM.
5. The draft financial statements did not make clear which elements of the Remuneration and Staff report were subject to audit.

Under the revised FReM disclosure is required of contingent liabilities that are considered remote if they are potentially material. This is in addition to the requirements of the ISA and covers those potential liabilities that are disclosed under parliamentary reporting requirements. We are not aware of any such liabilities but have agreed with management that a generic statement about complaints in progress would be included,

Significant difficulties identified during the audit

No significant difficulties were encountered during the course of our audit and we would like to take this opportunity thank the finance team for their assistance during the audit.

8 UNCERTAINTIES, RISKS, EXPOSURES, JUDGEMENTAL ISSUES AND GOING CONCERN

There are no further matters that we wish to bring to the attention of the committee.

9 FEES

We confirm that the fees charged during the year in respect of services performed for Wales Audit Office are consistent with those contained within our Audit Plan submitted to you and dated 25 February 2016.

10 INDEPENDENCE

In accordance with International Standard on Auditing (UK and Ireland) 260 "Communication with those charged with governance", there are no changes to the details of relationships between RSM UK Audit LLP and its related entities and Wales Audit Office and its related entities and directors that may reasonably be thought to bear on RSM UK Audit LLP's independence and the objectivity of the audit principal, Jenny Hill and the audit staff and the related safeguards from those disclosed in the Audit Plan dated 25 February 2016.

Jenny has acted as the Audit Principal for the Office for a period of five years. This is the mandatory rotation point for a listed entity. For a non-listed entity our firms policy is to consider at ten years. The AGW has an eight year term.

The committee should give consideration as to which point they wish auditor rotation to happen. RSM have one year remaining on their existing external audit contract.

APPENDIX A - DRAFT LETTER OF REPRESENTATION

RSM UK Audit LLP
Davison House
Forbury Square
Reading
Berkshire
RG1 3EU

Dear Sirs

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

We confirm to the best of my knowledge and belief, and having made appropriate enquiries of other senior executives of the Wales Audit Office, the following representations given to you in connection with your audit of the financial statements for the period ended 31 March 2016.

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

We acknowledge our responsibilities under the Public Audit (Wales) Act 2013 and Treasury Directions made in accordance with that Act for maintaining adequate accounting records and for preparing financial statements in accordance with the applicable accounting framework that give a true and fair view and for making accurate representations to you.

We confirm that we have taken all the steps we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors were unaware.

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. I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

Related party transactions

We have disclosed to you the identity of the related parties and all related party relationships and transactions of which I am aware. 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. There were no other transactions with related parties requiring disclosure during the year.

Use of funds and regularity

- We acknowledge our responsibility, as specified by the Public Accounts Committee of the National Assembly under the Public Audit (Wales) Act 2013, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the National Assembly for Wales and that the financial transactions conform to the authorities which govern them.
- To the best of our knowledge and belief we confirm that, in all material respects, the expenditure disbursed and income received during the year ended 31 March 2016 have been applied to purposes intended by Parliament and the National Assembly for Wales and the financial transactions conform to the authorities which govern them.
- Neither the board nor the senior management team have knowingly authorised a course of action, the financial impact of which was that transactions infringe the requirements of regularity.
- All transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records.
- There were no events of which we are aware which involve suspected non-compliance with the framework of authorities which govern the running of the Office.

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 2016 have been included in the balance sheet. All secured liabilities are disclosed.

2. Contingent liabilities

There were no contingent liabilities at the balance sheet date. All guarantees or warranties or other financial commitments have been fully disclosed in the financial statements. There were no known actual or possible litigation and claims whose effect should be considered when preparing the financial statements.

We confirm we have disclosed to you all banking and financing arrangements including related contracts and hedging products. We confirm that no tax avoidance schemes were used by the Wales Audit Office.

Accounting estimates

We confirm that all significant assumptions used 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 relating to accounting estimates are complete and appropriate.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

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 2016.

Remuneration report

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

All items of personal expenditure paid by the Wales Audit Office on the Management 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 Management committee or their connected persons had any indebtedness (or agreement concerning indebtedness) to the Wales Audit Office at 31 March 2016 or at any time during the year.

Governance Statement

We 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

We acknowledge that the responsibility for the detection of fraud, error and non-compliance with laws and regulations rests with me. We confirm that we are 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. We confirm that, insofar as we are able to determine, in my opinion the financial statements are not materially misstated as a result of fraud.

In particular we 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.

We 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.

Yours faithfully

Signed on behalf of the board of Wales Audit Office

AGW

Chair of the Board

Annual Plan 2016-17

Including additional information on our
three-year strategy and priorities



Foreword from the Auditor General for Wales and the Chair of the Wales Audit Office



Thanks to the professionalism, dedication and hard work of Wales Audit Office staff and our contractors, we successfully delivered almost the entire programme of work laid out in our [Annual Plan for 2015-16](#). However, I do not underestimate the challenges that lie ahead in a period of austerity in maintaining an audit programme that discharges my responsibilities as Auditor General to report in the public interest, whilst being dependent on fee income from the bodies I audit. I look forward, therefore, to working with the new National Assembly to design and implement a more effective and efficient method of financing my work than exists at present.

More detailed information on the delivery of my programme of work can be accessed through the audit and study reports published on [our website](#). In addition, our forthcoming Annual Report and Accounts for 2015-16 will include case study examples of the work we have undertaken and its impact.

Alongside a number of key revisions to my work programme and priority projects, this Annual Plan for 2016-17 incorporates four strategic themes which will underpin our work over the next three years. We have also provided a more detailed description of our current operating environment, and of how we plan to respond to that environment and achieve our aims and objectives, thereby helping the public sector in Wales to succeed in meeting the challenges it faces.

Huw Vaughan Thomas
Auditor General for Wales



The Board is continually focused on ensuring that the Auditor General for Wales has the right skills and resources to deliver his work programme, and on enhancing the efficiency and effectiveness of the way the Wales Audit Office operates. Over the course of the year, we have subjected our priorities, performance measures and targets to further scrutiny and refinement to ensure they are fit for purpose, suitably challenging but achievable within the specified timescales.

The results of that work are reflected in this Plan. In particular, this plan sets out our commitment to implement a new programme of work to facilitate transformation in the way we undertake our work, with an initial focus on making more effective use of data and information technology.

In our approach to transforming the way we work, our focus has been firmly fixed on considering what type of audit office Wales needs now and in the future to ensure the Auditor General's work delivers appropriate impact and improvement. Over the coming year we want to continue to explore the best ways we can work with our key stakeholders, both internal and external, and how we can effectively assess whether we are getting it right.

Isobel Garner

Chair, on behalf of the Wales Audit Office

This Annual Plan of the Auditor General for Wales and the Wales Audit Office for the year ending 31 March 2017, which includes additional information on our three-year strategy and priorities, 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 by the Auditor General for Wales and the Chair of the Wales Audit Office under section 26 of the Public Audit (Wales) Act 2013.

The National Assembly has made provision through Standing Order 18.11(i) for its Finance Committee to be responsible for considering and reporting to the Assembly on the Annual Plan.

If you require this publication in an alternative format and/or language please contact us using the details below.

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Telephone 02920 320 500
Email info@audit.wales

Contents

Who we are	6
What we do	7
How we follow the public pound in Wales	8
Our aim and objectives	9
Our operating environment	10
Our strategy	11
Our plan for delivery	12
Audit work at local government bodies	14
Audit work at NHS bodies	15
Audit work at central government bodies	16
Audit work for consideration by the Public Accounts Committee	17
Exchange of good practice	18
Engagement and joint working	19
Our governance and leadership	20
Our use of resources	21
Measuring and reporting on our performance	23
Appendices	24
1 Programmes of work for 2016-17	24
2 Roles and responsibilities of the Wales Audit Office Board	30
3 Our risk management arrangements	31
4 Our estimate of income and expenditure for 2016-17	32
5 Key performance measures and targets	33

Who we are

- 1 The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector.
2. The Auditor General is responsible for the audit of the majority of public money spent in Wales, including the funds that are voted annually by the National Assembly. Significant elements of this funding are passed by the Welsh Government to the NHS and local government in Wales.
3. The Wales Audit Office constitutes a Board that employs professionally qualified staff and utilises other resources, including additional expertise from private sector accountancy firms, to enable the Auditor General to carry out his functions. The Wales Audit Office currently employs around 260 staff.
- 4 Together, the Auditor General and the staff of the Wales Audit Office independently examine whether public money in Wales is being managed wisely and is properly accounted for.
- 5 We undertake our work in accordance with the Auditor General's Code of Audit Practice. As laid out in the Code, alongside specific legal and professional requirements, five widely recognised principles underpin our audit work.

Principles of public audit

1	Public focus Audit is carried out on behalf of the public and in the public interest. The public has a legitimate stake in audit work and should be engaged with its processes.
2	Independent Audit must be, and be seen to be, independent. Auditors should report in public without being influenced by fear or favour.
3	Proportionate Audited bodies need to be given enough space to deliver services to a high standard. They should be subject to sufficient, but not excessive, levels of scrutiny.
4	Accountable Auditors are publicly funded and are accountable for the stewardship of the resources provided to them. They must work economically, efficiently and effectively.
5	Sustainable Audit work must be undertaken with regard to sustainable development - meeting the needs of the present without compromising the ability of future generations to meet their own needs.

What we do

Public sector audit involves providing an opinion on the accounts and also covers issues such as:

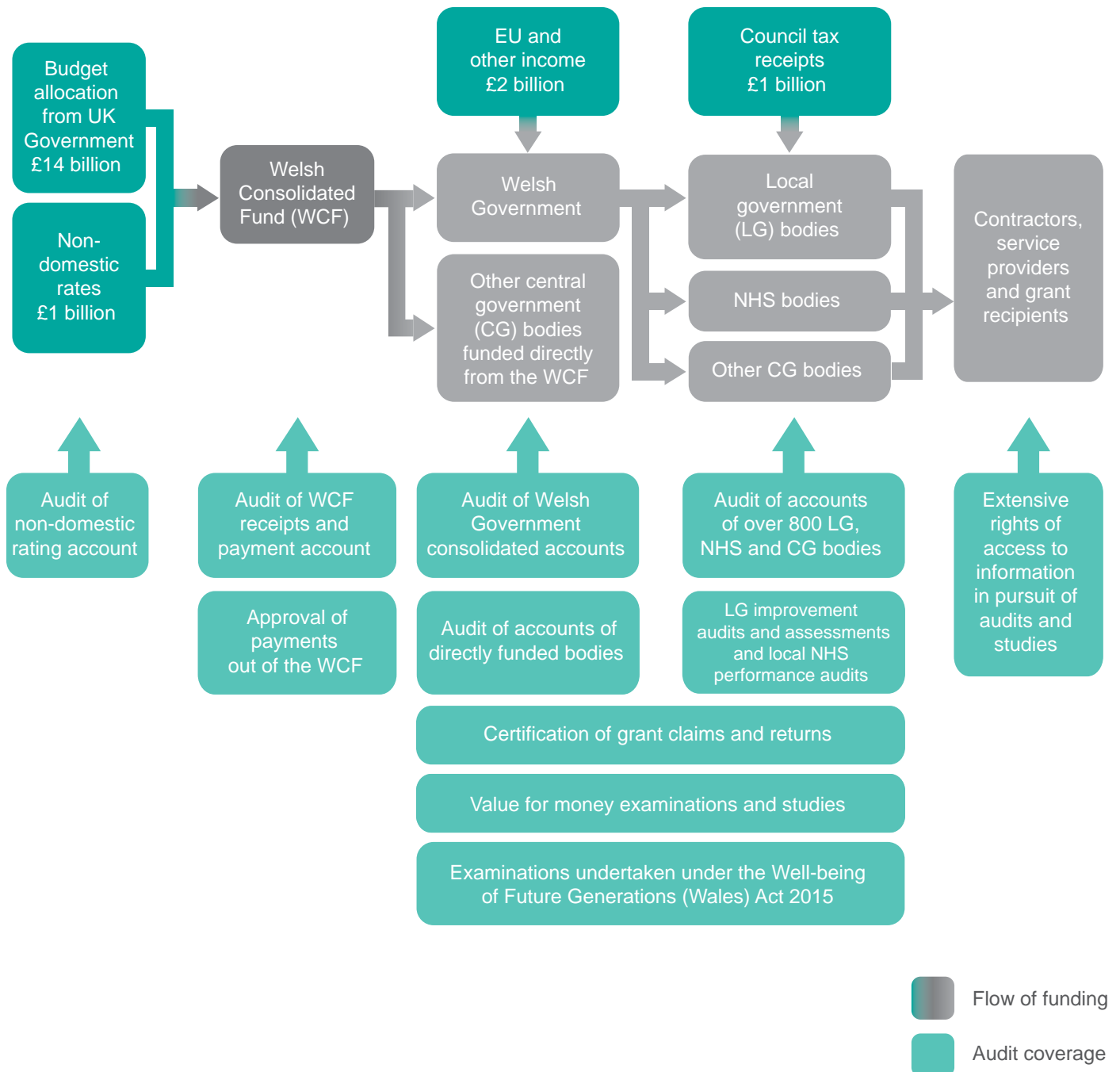
- **regularity (whether public money is being used for approved purposes);**
- **propriety (how public business is being conducted); and**
- **value for money.**

- 6 Each year the Auditor General, using resources provided by the Wales Audit Office, delivers a wide ranging and proportionate programme of external audit work, alongside certain other functions. The Auditor General also retains a degree of flexibility in his programme in order that he can respond swiftly and effectively to any issues we encounter through our audit work or that are brought to his attention.
- 7 The Auditor General's functions apply across different types of bodies, to examine public spending irrespective of who delivers the services.
- 8 We identify good practice from across the full breadth of the Auditor General's audit work and disseminate this through the Good Practice Exchange (a free web-based resource) and other media, including shared learning seminars and webinars.

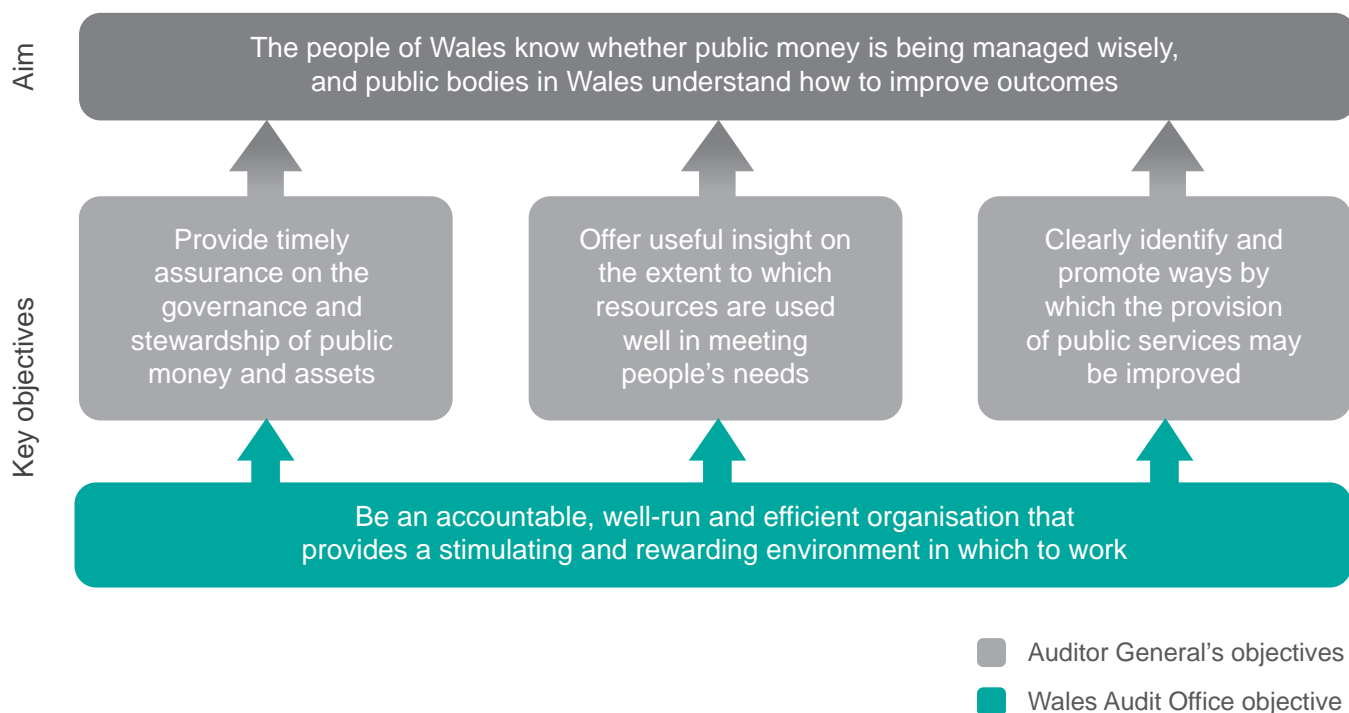
The aspects of value for money – economy, efficiency and effectiveness



How we follow the public pound in Wales



Our aim and objectives



- 9 Our aim is focused on informing the people of Wales and helping public bodies in Wales to succeed.
- 10 Our fourth key objective underpins the first three; in order for the Auditor General to deliver a high quality audit service, the Wales Audit Office must be a well-run organisation which delivers value for money.

Our operating environment

- 11 We consider the following factors to be those that will have greatest influence over the way we deliver our work and achieve our aim and objectives over the next three years.

We are in a period of financial constraint

- 12 Those charged with delivering public services continue to face real-terms reductions in annual budgets, while seeking to meet rising public expectations and demands and addressing a range of acknowledged service deficiencies. Public services in Wales must be ambitious in finding new ways of delivering services, so that they can sustain and protect outcomes for lower cost. Transformation through innovation, sharing and acting on good practice, and improving efficiency and effectiveness represents the most sustainable solution in the long term.

Governance arrangements are now required to have a wider scope

- 13 The National Assembly has recently placed further legal requirements on the public sector in Wales to strengthen governance arrangements in accordance with the principles of sustainable development, through the Well-being of Future Generations (Wales) Act 2015. Each public body listed in the Act must work to improve the economic, social, environmental and cultural well-being of Wales. To do this they must set and publish well-being objectives and then take action to make sure they meet those objectives.

The political and policy landscape continues to evolve

- 14 A broad range of policy and political factors are likely to influence how we deliver our work over the next few years. These include:
 - a changes to the devolution landscape;
 - b fiscal devolution – transfer of some tax raising and borrowing powers from Westminster to Wales by 2018;
 - c Welsh Government proposals for local government reform, including a move to fewer and larger councils;
 - d acceleration of changes to service delivery models and financing mechanisms;
 - e requirement for earlier closure of local government accounts by 2018-19; and
 - f amendments to Welsh Government grant funding and certification arrangements.

We live in an increasingly networked society

- 15 Over recent years, advances in information technology have led to increased digitisation of service delivery, increased public access to data, and new opportunities and ways to communicate through social media and other forms of digital communication.

Our strategy

16 In response to our operating environment, our Plan for delivering our programmes of work during 2016-17 and for the three-year period 2016-2019 is underpinned by four high-level strategic themes.

Continue to undertake our audit work with an austerity emphasis



We will continue to place increased emphasis on strengthening financial management across the Welsh public sector and improving the effectiveness and efficiency of the use of public resources and assets.

Our audit work will focus on assisting service transformation and helping public bodies cope with, and succeed despite, the impact of funding reductions.

Report more comprehensively on the effectiveness of governance arrangements



We will enhance our audit work on governance arrangements to support public bodies in meeting their responsibilities under the new legislation.

Increasingly, our consideration of financial resources, and the way in which public bodies account for their use, will be integrated with a consideration of their stewardship of human and natural resources.

Strengthen our workforce strategy so we can better respond to future developments



We will strengthen and optimise our workforce strategy to ensure we can both meet current demand and are able to anticipate and respond to future developments.

Our emphasis will be on having the right number and a diverse mix of people, with the right skills, knowledge and experience, in the right place, at the right time and at the right cost.

Make more effective use of data and information technology

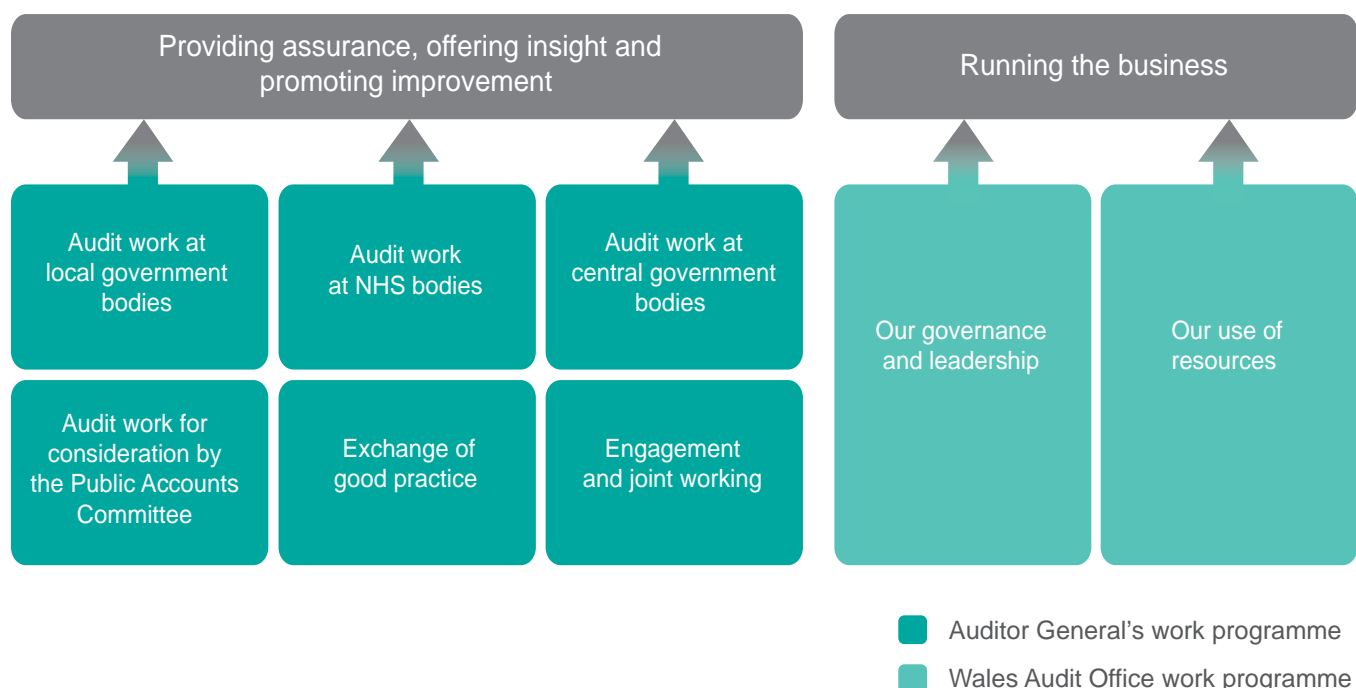


We will undertake audit work focussed on audited bodies' capacity to exploit digital transformation and their digital risk awareness.

We will also seek to take steps to enhance the impact of our work through further exploring new technology and maximising the effectiveness of our data collection, analysis and communication findings.

Our plan for delivery

17 The following pages constitute our Plan for delivering our programmes of work during 2016-17 and for the three-year period 2016-2019. The Plan is divided into eight sections which are aligned with our objectives as illustrated below, and are each underpinned by our four high-level strategic themes.



18 The first six sections of the Plan relate to the Auditor General's work programme. The referenced appendices in these sections outline the Auditor General's priorities for 2016-17 in exercising his functions. The tables in these sections outline further priority areas of improvement or other work that we intend to undertake over the next three years, alongside or as part of the Auditor General's statutory programme of audit work. The remaining two sections of the Plan relate to the Wales Audit Office's work programme. The tables in these sections outline the Wales Audit Office's priorities for 2016-17 and for the next three years in exercising its functions.

- 19 The resources available, and which may become available to the Wales Audit Office, as per the approved [Estimate of Income and Expenses for the Year Ended 31 March 2017](#), are to be used in delivering these work programmes.
- 20 While priority projects in the Plan are listed under headline areas, several touch on one or more of the areas. Each project is sponsored by a named individual from our executive management team.
- 21 A key theme underpinning much of our audit work below will be to take account of the obligation that relevant public bodies will be under from April 2016 to adopt the sustainable development principles as set out in the Well-being of Future Generations (Wales) Act 2015. Our priority will be to engage those bodies in developing an approach to discharge the Auditor General's duty under that legislation.

Audit work at local government bodies

22 The Auditor General's programme of work in local government covers a broad range of bodies, including unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, local government pension funds and town and community councils. The programme includes audits of accounts, certification of grant claims and returns, improvement audits and assessments, and local government studies.

Appendix 1 – The Auditor General's programme of audit work at local government bodies in 2016-17

23 Local government bodies in Wales currently face several significant challenges and risks. These include reductions in funding, weaknesses in governance, scrutiny and public reporting arrangements, increased demand for care and education services, an urgent need for many councils to improve standards in education, and the prospect of substantive reform and mergers in the future.

Three-year priorities	When	Management Committee Lead
Undertake local assessments and provide all-Wales overviews of the corporate capacity of local government bodies to deliver transformation and change programmes	2016 and each year thereafter	Gillian Body Assistant Auditor General and Head of Performance Audit
Better integrate the planning and reporting of our local audit of accounts and performance audit work, particularly in relation to examining the effectiveness of governance arrangements	2016	Gillian Body
Prepare, including through working with relevant stakeholders, for the introduction of faster closure of local government accounts	2016-2018	Anthony Barrett Assistant Auditor General and Head of Financial Audit
Develop and pilot an outcome-based approach to grant certification for local government accounts	2016-2017	Anthony Barrett
Provide more informative reporting on the effectiveness of governance arrangements through our modified framework for the audit of town and community councils	2016	Anthony Barrett

Audit work at NHS bodies

24 The Auditor General’s work across NHS Wales covers all seven local health boards and the three NHS Trusts, as well as the work of the Welsh Government’s Health and Social Care Department. The Auditor General audits the annual accounts of each NHS body, and reports publicly on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources.

Appendix 1 – The Auditor General’s programme of audit work at NHS bodies in 2016-17

25 Across the NHS in Wales (as elsewhere in the UK) highly-publicised failures in corporate and clinical governance in recent years, together with associated quality and patient safety concerns, have served to dent public confidence in healthcare provision. In addition, the provisions of the NHS Finance (Wales) Act 2014 present an opportunity to shift away from the short-term pressures of annual budgets and to focus instead on robust medium-term integrated delivery plans.

Three-year priorities	When	Management Committee Lead
Undertake comparative assessments of governance arrangements in NHS bodies with a view to identifying and sharing good practice in specific areas that NHS bodies have found difficult and problematic	2016	Gillian Body
Participate fully in the escalation intervention protocol to identify and respond to serious issues affecting service delivery, quality and safety of care and organisational effectiveness across NHS Wales	2016 and each year thereafter	Mike Usher Sector Lead, Health and Central Government
Publish an audit review of the initial operation of three-year NHS integrated delivery plans	2016-2017	Gillian Body

Audit work at central government bodies

26 The central government sector in Wales covers a diverse range of public bodies, including the Welsh Government and its sponsored bodies, the offices of various statutory commissioners, inspectors and regulators, and the National Assembly Commission. Unlike for local government and health bodies, the Auditor General is not required to conduct a programme of performance audit work at each central government body, but instead only provides an annual opinion on their accounts. Performance audit work conducted within this sector currently sits within his programme of value for money studies.

Appendix 1 – The Auditor General’s programme of audit work at central government bodies in 2016-17

27 A particular challenge for the Welsh Government is the implementation of fiscal powers for Wales from April 2018, including the creation of the Welsh Revenue Authority and a Treasury function. Preparatory work has commenced on this complex change programme, and a Wales Audit Office observer attends the Welsh Government’s Programme Board. A different set of strategic challenges will be posed by the evolving relationship between Wales and Westminster and the further changes to the devolution settlement that will be contained in the upcoming Wales Bill.

Three-year priorities	When	Management Committee Lead
Publish an annual overview report on the results of audit work undertaken within the central government sector	2016 and each year thereafter	Anthony Barrett
Explore with the Welsh Government the potential for undertaking a cyclical programme of governance and performance audit reviews across each of the Welsh Government departments and sponsored bodies	2016-2017	Mike Usher
Provide the National Assembly’s Finance Committee with an audit commentary on preparedness for the introduction of fiscal powers and on progress made throughout the planning and implementation stages	2016-2019	Mike Usher
Evaluate and prepare for the accounting and audit implications of the implementation of Welsh fiscal powers	2016-2019	Mike Usher

Audit work for consideration by the Public Accounts Committee

28 This programme of audit work includes value for money examinations, the preparation of summary reports of the findings from audit work across multiple NHS, central government and/or local government bodies, and examinations undertaken in response to issues of public concern identified through our audit work or raised with the Auditor General. The outputs from much of this programme support the work of the National Assembly's Public Accounts Committee and potentially other Assembly committees.

Appendix 1 –The Auditor General's programme of audit work being undertaken during 2016-17 for consideration by the Public Accounts Committee

29 In determining his programme of value for money studies, the Auditor General takes into account the views of the Public Accounts Committee and consults more widely with other stakeholders. His key aims for the programme are to provide comprehensive and timely coverage of spending and risks to value for money, including to address a broad range of issues that are of material interest or concern, and to give consideration to the long-term well-being of the people of Wales. We look to support the Public Accounts Committee and, where relevant, other Assembly committees to help maximise the impact of their scrutiny inquiries.

Three-year priorities	When	Management Committee Lead
Increase the impact of, and engagement with, our public reporting through enhancing the design of our reports and broadening our communication channels	2016-2017	Gillian Body
Enhance our work that examines whole systems and the linkages between service providers, including in particular the interface between health and social care provision	2016-2018	Gillian Body
Following the 2016 Assembly elections, develop a constructive relationship with the new Public Accounts Committee and identify ways to further enhance support for their scrutiny work	2016-2018	Gillian Body
Raise awareness of the work of the Auditor General and Wales Audit Office among Assembly Committees, including through contributing to the induction of new Assembly Members after the 2016 Assembly elections	2016-2017	Huw Vaughan Thomas Auditor General and Chief Executive

Exchange of good practice

- 30 In recent years we have developed approaches to facilitate knowledge exchange with increasing success. One of the two main strands of our approach is the provision of freely available online resources that enable the public, service users, service providers, policy makers and decision makers to access information that will leave them better informed. In particular, we aim to promote the sharing of this information across organisational, geographical and international boundaries.
- 31 Our other strand of activity involves facilitating conversations where the learning from comparative successes and failures is shared face-to-face. Increasingly we are looking to bring the views and experience of global experts to these conversations.

Appendix 1 – Our programme of good practice work in 2016-17

Three-year priorities	When	Management Committee Lead
Encourage improvements in public services by capturing at least 50 improvement opportunities from an annual programme of 12 shared learning events, and monitor their translation into action	2016 and each year thereafter	Alan Morris Sector Lead, Local Government and Criminal Justice
Develop programmes of good practice work on key challenges facing public services including governance, planning for the long-term, public service transformation, making more effective use of data and information technology, and austerity	2016-17	Alan Morris
Invest in developing and supporting self-sustaining 'communities of interest' amongst public bodies to build upon the momentum generated by our good practice and shared learning activity	2016 and each year thereafter	Alan Morris
Provide opportunities for staff from across the organisation to share and develop skills through participation in good practice work and shared learning activities	2016 and each year thereafter	Alan Morris

Engagement and joint working

- 32 The Auditor General and Wales Audit Office are committed to effective stakeholder engagement to inform the development, maximise the relevance, and extend the reach and impact of the Auditor General's work. In 2016-17 and over the next three years we will continue to increase awareness of the Auditor General's work, through a range of face-to-face engagement activities and through more effective use of information technology, including web-based applications and social media.
- 33 We are also committed to working closely with the other UK audit agencies through the Public Audit Forum, and with the other main external review bodies in Wales through the Inspection Wales initiative, to enhance the efficiency and effectiveness of public audit and the collective impact of our work. On occasion, we represent Wales on the international audit stage.
- 34 The Wales Audit Office is able to make arrangements with certain types of bodies for it or the Auditor General to provide services to, or to exercise the functions of those bodies. But, we are mindful that all such activities should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

Appendix 1 – The Auditor General's programme of joint working activity in 2016-17

Three-year priorities	When	Management Committee Lead
Embed arrangements for more effective management of correspondence received from the public or other interested parties about matters relevant to the Auditor General's functions	2016	Kevin Thomas Director of Corporate Services
Make use of the results of our stakeholder feedback to further our sector understanding and relationships with audited bodies to both better inform our work programme and contribute to developments and improvements across the public sector	2016 and each year thereafter	Huw Vaughan Thomas
Further enhance our engagement with the public, their representatives and other stakeholders to gauge the impact of our work, assess our performance and measure our success	2016 and each year thereafter	Huw Vaughan Thomas
Encourage participation in the National Fraud Initiative from a greater range of bodies in receipt of public funding, and expand the information used in the data matching exercise	2016	Anthony Barrett
Further enhance the efficiency and effectiveness of audit, inspection and regulation in Wales through working closely with Inspection Wales partners to realise more efficient working practices and achieve greater impact through joint working and the sharing of intelligence and resources	2016 and each year thereafter	Huw Vaughan Thomas

Our governance and leadership

35 As required by the Public Audit (Wales) Act 2013, we are in the unique position of having not only non-executive and executive members of the Wales Audit Office Board, but also employee elected members to provide an extra dimension of insight and experience. Our governance arrangements provide us with a real opportunity to further develop and progress as an organisation.

Appendix 2 – The roles and responsibilities of the Wales Audit Office Board

- 36 The key aspects of the Wales Audit Office’s programme of work for 2016-17 and for the next three years will be to:
- a ensure that our governance arrangements are embedded within the organisation, including through strong and accountable leadership and robust risk management arrangements;
 - b provide the Auditor General with the resources needed for delivering the Auditor General’s work;
 - c make sure that the Wales Audit Office is a well-run and efficient organisation; and
 - d monitor the delivery of this Plan.

Appendix 3 – Our risk management arrangements

37 The Wales Audit Office has a senior management structure which is designed to provide clear lines of reporting and accountability, and to enable the Auditor General’s work to inform the public and influence public service delivery in the most efficient and effective way.

Three-year priorities	When	Management Committee Lead
Implement a programme of work to facilitate strategic transformation of audit, with an initial focus on making more effective use of data and information technology	2016	Huw Vaughan Thomas
Strengthen leadership capability, through a leadership development programme and continued use of 360° performance reviews for senior staff and supporting reviews of Board effectiveness	2016-2019	Huw Vaughan Thomas
Strengthen our workforce planning arrangements, including through more effective succession planning and more detailed modelling of future demand scenarios	2016-2019	Kevin Thomas
Monitor the development of our unique governance arrangements working collaboratively with other UK audit bodies, with a view to sharing knowledge, learning and experience	2016-2019	Huw Vaughan Thomas
More effectively use external benchmarking and comparison, working collaboratively with other UK audit bodies, to assess our performance, measure our success, and improve our impact	2016-2019	Kevin Thomas

Our use of resources

38 In 2016-17 and over the next three years we will build on our effective working relationship with the National Assembly's Finance Committee. The Finance Committee scrutinises our use of resources, including through consideration of our estimate, fee scheme, annual plan, interim report(s) and annual report and accounts. We therefore work to the highest standards in applying and accounting for our resources.

Appendix 4 – Our estimate of income and expenditure for 2016-17

- 39 Sustainable development is widely understood to mean meeting the needs of the present without compromising the ability of future generations to meet their own needs. We have been working hard to embed the principles of sustainable development in the way we run our organisation, and in the way we resource the Auditor General's audit work, for a number of years. The Well-being of Future Generations (Wales) Act 2015, will require us to make further progress in this area.
- 40 Approximately two thirds of Wales Audit Office funding comes from fees charged to audited bodies in accordance with a Scheme of Fees approved by the National Assembly. In November 2014, the Assembly's Finance Committee recommended that the Public Audit (Wales) Act 2013 be amended to clarify audit fee charging requirements, and has subsequently stated that it will set out the issues in its legacy report for consideration in the Fifth Assembly.
- 41 Most of the remainder of Wales Audit Office funding comprises approved financing from the Welsh Consolidated Fund. In these times of significant financial restraint, cost efficiency continues to be a priority and we continue to operate an efficiency and effectiveness programme to support this across the business.

Three-year priorities	When	Management Committee Lead
Make better use of technology and information management to rationalise and streamline our business systems and processes, through implementation of a rolling three-year ICT plan	2016-2019	Kevin Thomas
Expand and enhance our existing graduate trainee programme including through establishing a collaborative programme under which our trainees will spend time working in the wider public sector in Wales	2016-2018	Anthony Barrett
Keep a tight grip on costs, seek further efficiencies and keep fees as low as possible	2015-2018	Steve O'Donoghue Director of Finance
Develop proposals for simplifying and improving the cost-effectiveness of the funding arrangements of the Wales Audit Office, for consideration by the Assembly's Finance Committee	2016-2017	Steve O'Donoghue
Make better use of our estate to minimise cost and assist flexible audit delivery	2016-2019	Kevin Thomas
Demonstrate our corporate social responsibility through our work on: <ul style="list-style-type: none"> • improving environmental stewardship; • promoting the well-being of our staff; • advancing equality of opportunity, eliminating discrimination and fostering good relations; and • promoting use of the Welsh language and meeting the new Welsh language standards. 	2016-2019	Kevin Thomas

Measuring and reporting on our performance

- 42 In 2016-17 and over the next three years we will use a combination of quantitative and qualitative methods to measure, report and reflect on our performance and risks. This will include regular reporting to our Management Committee and Board on progress made in delivering our priorities and achieving our key performance measure targets. It will also include internal audit reports to our Management Committee and Audit and Risk Assurance Committee. We will place particular emphasis on evaluating our direction of travel and pace of improvement, alongside comparison with appropriate benchmarking.
- 43 We will report on our performance externally through our **Annual Report and Accounts** and **Interim Report(s)**, and by providing evidence at meetings of the National Assembly's Finance Committee.
- 44 Our framework of key performance measures is centred on the following themes and questions about our activities. Our suite of targets has been developed with reference to current levels of performance and appropriate benchmarks. The targets will be subject to further scrutiny and refinement during 2016-17 to ensure they are suitably challenging but achievable within the specified timescales.

Impact

To what extent is our work informing the people of Wales, helping public bodies in Wales to succeed, and valued by our stakeholders?

Delivery

Are we delivering our audits on time and to the required quality and professional standards?

Leadership

Are our governance and leadership arrangements operating effectively?

Financial

How well are we managing our finances and assets?

Social

How well are we promoting and supporting equality, well-being and learning?

Environmental

How well are we managing our impact on the environment?

Communication

How well are we raising awareness of and encouraging engagement with our work?

Appendix 5 – Key performance measures and targets

Appendix 1 - Programmes of work for 2016-17

The Auditor General's programme of audit work at local government bodies in 2016-17

Audits of accounts

22 unitary authorities
3 fire and rescue authorities
3 national park authorities
4 police and crime commissioners
4 chief constables
8 pension funds
A number of other smaller local government bodies including joint committees and harbour authorities
Audits of over 740 town and community councils on a limited assurance basis

Certification of grant claims and returns

Up to 20 schemes worth approaching £3 billion and involving around 420 individual claims

Improvement audits and assessments

22 unitary authorities (including six more detailed corporate assessments)
3 fire and rescue authorities
3 national park authorities

Local government studies

Financial position and resilience (follow-up study)
Council funding of third sector services
The strategic approach of councils to income generation and charging for services
The effectiveness of local community safety partnerships
Addressing dependency and demand for Public Services through the development of effective prevention approaches
Strategic commissioning
Improving joint working on housing and health

The Auditor General's 2016-17 programme of performance audits and assessments will have a particular focus on the themes of financial management, governance and transformational change.

The Auditor General's programme of audit work at NHS bodies in 2016-17

Audits of accounts

7 local health boards
3 NHS trusts
Local health board summarised accounts
NHS trusts summarised accounts

Structured assessments

7 local health boards
3 NHS trusts

Local performance audit work

7 local health boards
3 NHS trusts

Health studies

Radiology services
NHS Consultant Contract (follow-up study)
Governance arrangements at Betsi Cadwaladr University Health Board (follow-up study)
Emergency ambulance commissioning arrangements
GP Out of Hours services
Discharge Planning

The Auditor General's programme of audit work at central government bodies in 2016-17

Welsh Government accounts

Welsh Government consolidated accounts
Non-domestic rating account
Welsh Consolidated Fund receipts and payment account
Whole of Government Accounts
Approval of payments out of the Welsh Consolidated Fund

Accounts of Welsh Government sponsored bodies

Arts Council of Wales
Arts Council of Wales Lottery Fund
Care Council for Wales
Higher Education Funding Council for Wales
National Library of Wales
National Museums and Galleries of Wales
Natural Resources Wales
Sports Council for Wales Main and Trust Accounts
Sports Council for Wales Lottery Fund
Local Democracy and Boundary Commission for Wales
Qualifications Wales

National Assembly for Wales accounts

National Assembly for Wales Commission
Assembly Members Pension Fund

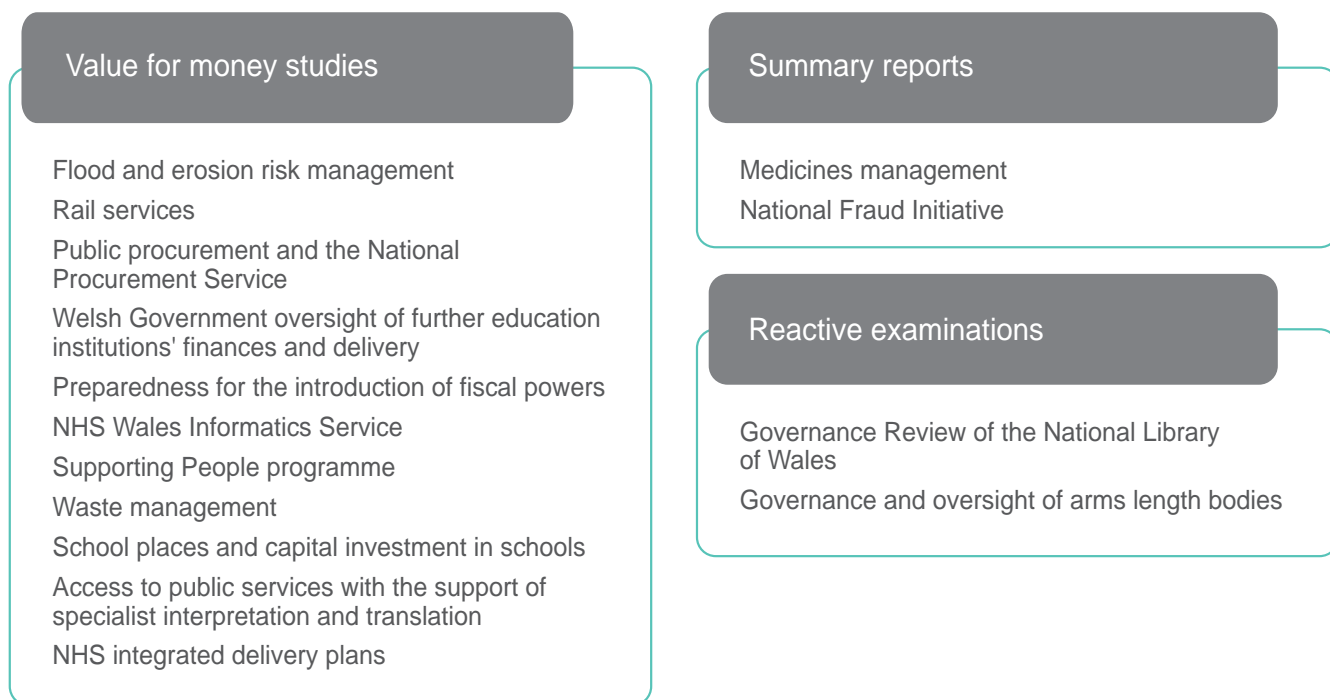
Accounts of commissioners, inspectors and regulators

Children's Commissioner for Wales
Older People's Commissioner for Wales
Public Services Ombudsman for Wales
Welsh Language Commissioner
Estyn
Education Workforce Council
Future Generations Commissioner

Welsh Government companies

Hybu Cig Cymru
Careers Choice
Life Sciences Hub
Sector Development Wales

The Auditor General's programme of audit work being undertaken during 2016-17 for consideration by the Public Accounts Committee



Some, but not all, of the work listed above is already in progress and is due to be reported on in 2016-17. The programme of work retains a degree of flexibility to respond to changing circumstances, priorities and risks and following the 2016 Assembly elections, we will be looking to engage with the new Public Accounts Committee at an early stage on priorities for future work with a view to commencing a number of further value for money studies in the second half of 2016-17.

There may also be additional outputs in 2016-17 arising from examinations undertaken in response to issues of public concern or from local programmes of audit work where there are issues or learning of wider relevance.

Our programme of good practice work in 2016-17

Shared learning seminars

- Community safety partnerships
- Maximising the impact of internal audit
- Strategic importance of digital in delivery of public services
- Effective governance of partnerships, collaborations and alternative delivery models
- Complaints are a gift
- Public services working across boundaries for better health and wellbeing
- Building on lessons learnt from the management of capital projects
- Building on the lesson of the public procurement and NPS study

Good practice guides

- Governance
- Staff involvement and engagement

Shared learning webinars

- Open data
- Benefits Realisation
- Clinical Coding

External facilitation of shared learning and community support

- Academi Wales summer school
- NHS Wales Finance Directors Network
- Working With Not To co-production practitioner groups
- Good Practice Wales
- Futures Generations Commissioner
- Public Health Wales
- One Voice Wales
- Wales Centre for Behaviour Change, Bangor University

Our programme of seminars and webinars is flexible and further topics will be added during the course of the year. More information on our [Programme of good practice work](#), including our case studies library, can be found on our website.

The Auditor General's programme of joint working and commissioned work activity in 2016-17

Joined up delivery

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake inspections of Regional Education Improvement Consortia

Annual certification of the accounts of the European Agricultural Funds

Follow-up joint review with Healthcare Inspectorate Wales of governance arrangements at Betsi Cadwaladr University Health Board

Development of a memorandum of understanding with the Future Generations Commissioner

Membership of external working groups

EURORAI

International Integrated Reporting Council's Public Sector Pioneer Network

Public Audit Forum

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards Panel

Inspection Wales initiative

DWP Housing Benefit and Welfare Reform UK inspectorates liaison group

Youth Justice Board/HMIP 'Keeping in Touch' liaison panel

Commissioned audit work

A range of charity audits

Chief Auditor to and audit of the accounts of the Government of Anguilla

Waste management and trade refuse benchmarking groups

Participation with observer status on external working groups

Partnership Council for Wales

Welsh Government Treasury Implementation Board

Finance Minister's Welsh Tax Forum

Welsh Government 'Simplification Challenge'

Welsh Government Co-ordinating Officials Group

CSSIW Local Authority Inspection Framework Board

Local Government Data Unit Board

Fire and Rescue Service National Framework Project Board

Financial Reporting Council Public Sector Advisory Group

Appendix 2 - Roles and responsibilities of the Wales Audit Office Board



David Corner
Non-executive
Member



Amanda Hughes
Elected
Employee
Member



Kevin Thomas
Appointed
Employee
Member



Steve Burnett
Non-executive
Member and
Senior Independent
Director



Isobel Garner
Non-executive
Chair



Huw Vaughan
Thomas
Auditor General
for Wales and
Chief Executive



Lindsay Foyster
Non-executive
Member



Peter Price
Non-executive
Member



Louise Fleet
Elected
Employee
Member

The Board is responsible for:

- Monitoring the exercise of the Auditor General's functions
- Providing the Auditor General with advice
- Employing staff and providing resources for the exercise of the Auditor General's functions
- Charging fees for work done by the Auditor General
- Preparing jointly with the Auditor General an annual plan and estimate of income and expenses

Appendix 3 - Our risk management arrangements

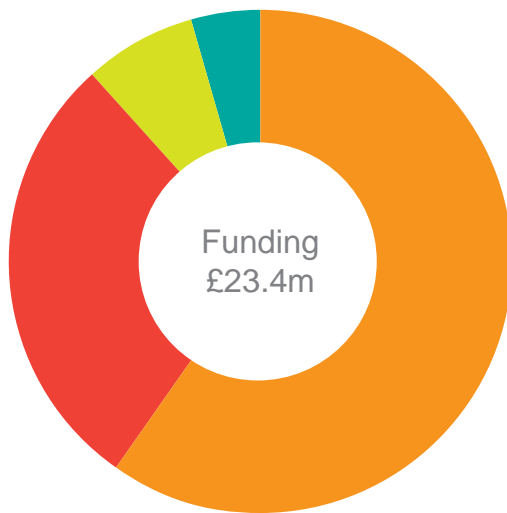
Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity and propriety, and financial management is low.

In other areas, such as in relation to the exchange of good practice and engaging more effectively with the public, we are prepared to accept more risk in order to take advantage of opportunities to pursue our aim and objectives.

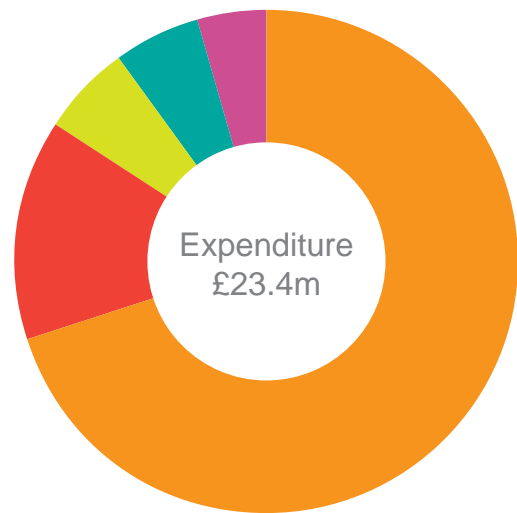
The Wales Audit Office is committed to adopting best practice in the identification, evaluation and cost-effective control of risks to ensure they are reduced to an acceptable level or eliminated. It is acknowledged that some risks will always exist and will never be eliminated – but these too must be monitored and controlled.

The Wales Audit Office Board has overall responsibility for risk management and is supported by an Audit and Risk Assurance Committee. The Management Committee is responsible for managing risk on a day-to-day basis, and maintains a risk register with identified strategic and operational risks that could affect the achievement of our aim and objectives.

Appendix 4 - Our estimate of income and expenditure for 2016-17



- Audit and inspection fees (£14 million)
- Welsh Consolidated Fund (£6.7 million)
- Grant certification fees (£1.7 million)
- Welsh Government grant funding (£1 million)



- Staffing (£16.4 million)
- Support costs (£3.3 million)
- Travel (£1.4 million)
- Contractor staff (£1.3 million)
- Audit firms (£1 million)

The Assembly's Finance Committee approved the 2016-17 budget for the Wales Audit Office in November 2015. £16.7million of planned expenditure relates to resources to be made available to the Auditor General to carry out his work programme, through drawing on the expertise of our Financial Audit Practice and Performance Audit Practice¹. A further £6.7million provides a range of corporate enabling services, including accommodation and other support services, such as legal advice, ICT and HR².

More information on our [Estimate of income and expenditure for the year ending 31 March 2017](#) can be found on our website.

¹ Per the Public Audit (Wales) Act 2013, this is the maximum amount of the resources available, and which may become available, that it is anticipated will be allocated by the Wales Audit Office to the Auditor General for the purpose of undertaking his work programme.

² Per the Public Audit (Wales) Act 2013, this is deemed as the resources required to support the Wales Audit Office's programme.

Appendix 5 - Key performance measures and targets

Impact

No.	Indicator	Description	Target
I1	Accepted recommendations	Proportion of recommendations or proposals for improvement that are fully accepted for implementation by audited bodies	90 per cent
I2	Savings identified	Value of potential savings identified through our work	At least £8 million in 2016-17 and £24 million during 2016-2019
I3	Credibility	Proportion of stakeholders who consider the Auditor General to be an independent and authoritative commentator on the governance and stewardship of public money and assets	At least 90 per cent
I4	Insight	Proportion of stakeholders who said that through our work, they gained useful insight that they would not have acquired otherwise	At least 80 per cent
I5	Improvement	Proportion of stakeholders who believe our work has led to improvements in the provision of public services	At least 80 per cent

Delivery

No.	Indicator	Description	Target
D1	On time	Proportion of audit products delivered on time	95 per cent
D2	National reports	Number of national reports published	14 per annum
D3	Good practice	Number of good practice products delivered, including seminars and webinars	20 per annum
D4	Quality	Proportion of audits that are delivered in accordance with required quality standards	100 per cent of annual sample
D5	Approval of payments	Proportion of requests to draw from the Welsh Consolidated Fund that are processed within 24 hours of receipt of required information	100 per cent

Leadership

No.	Indicator	Description	Target
L1	Confidence	Proportion of stakeholders that said they have confidence in our work	At least 90 per cent
L2	Engagement	Proportion of staff that feel they understand and are engaged with our strategic approach as set out in this Plan	At least 80 per cent
L3	Trust and motivation	Proportion of staff that feel they are trusted to carry out their job effectively	At least 80 per cent
L4	Continuous improvement	Proportion of staff that feel encouraged to come up with new and better ways of doing things	At least 80 per cent
L5	Performance management	Proportion of staff that agree their performance is evaluated fairly	At least 95 per cent

Financial

No.	Indicator	Description	Target
F1	Financial balance	Level of surplus at year end	Within two per cent of budget
F2	Supplier payments	Proportion of suppliers paid within 10 days of receipt of invoice	At least 85 per cent
F3	Debt recovery	Value of aged debts aged over 60 days	Less than £300,000
F4	Cost savings	Value of cost savings or additional income identified throughout the business	£1 million in 2016-17
F5	Efficiency of estate	Costs including for rent and rates per whole-time equivalent	Less than £3,300 in 2016-17

Social

No.	Indicator	Description	Target
S1	Sickness absence	Average working days lost per member of staff per annum	Less than 6.5 days
S2	Learning and development	Proportion of staff that feel they are able to access appropriate learning and development opportunities when they need to	At least 80 per cent
S3	Inclusion and fair treatment	Proportion of staff that feel they are treated fairly and with respect	At least 80 per cent
S4	Work-life balance	Proportion of staff that feel they are able to strike a good balance between their work and private life	At least 80 per cent
S5	Welsh language provision	Number of complaints received regarding our Welsh language provision	0

Environmental

No.	Indicator	Description	Target
E1	Environmental management	Level of Groundwork Wales Green Dragon Environmental Standard accreditation	Level 5 (highest level) in 2016-17
E2	Greenhouse gas emissions	Total CO ₂ equivalent emissions from sources that we own or control, from consumption of purchased electricity, or that are produced indirectly as a consequence of our activities	Less than 575 tonnes in 2016-17*
E3	Waste	Total waste produced	Less than 60 tonnes in 2016-17 and less than 50 tonnes by 2018
E4	Reused, recycled or composted	Proportion of our total waste produced that is reused, recycled or composted	60 per cent in 2016-17 and 70 per cent by 2018
E5	Paper	Paper consumption	Less than 2,200 reams in 2016-17

* E2 will be subject to further review during the year following us seeking external advice, including from DEFRA on our calculation methodologies.

Communication

No.	Indicator	Description	Target
C1	Website	Number of page views	210,000 per annum
C2	Press coverage	Proportion of media articles published about our work that have positive or neutral sentiment	At least 90 per cent
C3	Social media	Klout score – a measure of our social media influence by analysing our Twitter account activity	Score of at least 48 out of 100 in 2016-17
C4	Shared learning seminars	Number of attendees at our shared learning seminars	1,000 per annum
C5	External events	Number of instances where our staff are invited to present audit learning at externally hosted conferences and events	25 per annum

Interim Report

An assessment
of progress made
against our 2016-17
Annual Plan during the
period 1 April to
30 September 2016



This Interim Report covers the period from 1 April to 30 September 2016 and has been jointly prepared, and is laid before the National Assembly for Wales, by the Auditor General for Wales and the Chair of the Wales Audit Office, in accordance with the requirements of the Public Audit (Wales) Act 2013.

The Interim Report includes an assessment of the extent to which:

- the exercise of the functions of both the Auditor General and the Wales Audit Office has been consistent with the Annual Plan prepared for 2016-17 under section 25 of the Public Audit (Wales) Act 2013;
- progress has been made towards achieving the priorities set out in the Plan; and
- progress has been made towards achieving our key performance measure targets.

If you require this publication in an alternative format and/or language, or have any questions about its content, please contact us using the details below.

We treat the English and Welsh languages on an equal basis.

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Telephone 02920 320 500
Email info@audit.wales

Website www.audit.wales
Twitter [@WalesAudit](https://twitter.com/WalesAudit)

© Auditor General for Wales and Wales Audit Office 2016

Contents

Foreword from the Auditor General for Wales and the Chair of the Wales Audit Office

Overview

- 5 During the period 1 April to 30 September 2016, the exercise of the functions of the Auditor General for Wales and Wales Audit Office has been consistent with our 2016-17 Annual Plan
- 6 There has been no need to deviate significantly from the planned work programmes of the Auditor General and Wales Audit Office for 2016-17
- 7 We are continuing to make good progress towards achieving our three-year priorities

Performance analysis

- 8 We made good progress towards achieving our key performance measure targets

Appendices

- 13 Appendix 1: Detailed information on the programmes of work carried out by the Auditor General and the Wales Audit Office from 1 April to 30 September 2016
- 19 Appendix 2: Commentary on the progress we have made during the reporting period towards achieving each of our three-year priorities

Foreword from the Auditor General for Wales and the Chair of the Wales Audit Office

This Interim Report describes the progress we have made to date towards delivering our [Annual Plan for 2016-17](#).

Over the last six months, there has been no need to deviate significantly from the work programmes laid out in our Plan, which are underpinned by four high level strategic themes:

- Continue to undertake our audit work with an austerity emphasis
- Report more comprehensively on the effectiveness of governance arrangements
- Strengthen our workforce strategy so we can better respond to future developments
- Make more effective use of data and information technology

All planned work has either been delivered, or is progressing to plan, which is a credit to the professionalism, dedication and hard work of the staff of the Wales Audit Office.

We have also made good progress since publishing our [Annual Report and Accounts for 2015-16](#) towards achieving our three-year priorities and key performance measure targets, which are aimed at enhancing the effectiveness of public sector audit in Wales.

Approximately two thirds of Wales Audit Office funding comes from fees charged to audited bodies in accordance with a [Scheme of Fees](#) approved by the National Assembly. Most of the remainder of Wales Audit Office funding comprises approved financing from the Welsh Consolidated Fund, as laid out in our [Estimate for 2016-17](#). In these times of significant financial restraint, cost efficiency continues to be a priority and we continue to operate an efficiency and effectiveness programme to support this across the business.

Huw Vaughan Thomas
Auditor General for Wales

Isobel Garner
Chair, on behalf of the Wales Audit Office

Overview

During the period 1 April to 30 September 2016, the exercise of the functions of the Auditor General for Wales and Wales Audit Office has been consistent with our 2016-17 Annual Plan

In response to our operating environment, our Plan for delivering our programmes of work during 2016-17, and for the three-year period 2016-2019, is underpinned by four high-level strategic themes. In the following exhibit, we provide some examples of how, during the period 1 April to 30 September 2016, the exercise of the respective functions of the Auditor General for Wales and of the Wales Audit Office has been consistent with those themes.

Continue to undertake our audit work with an austerity emphasis



In August 2016, we published the results of a review of the financial resilience of local authorities in Wales.

We are also currently undertaking a study in which we consider the overall financial standing of the further education sector in Wales, as well as the impact of recent structural changes across the sector and reductions in Welsh Government funding.

Report more comprehensively on the effectiveness of governance arrangements



We have recently commenced a thematic review of governance across the local government sector, as well as our annual structured assessment governance work at NHS bodies.

The Auditor General has, following consultation, invited public bodies to work with him to develop and test the approach for discharging his duty under the Well-being of Future Generations (Wales) Act 2015.

Strengthen our workforce strategy so we can better respond to future developments



We have strengthened our workforce strategy and are developing our workforce planning arrangements to ensure we can meet current demand and respond to future developments in our operating environment.

We also published an action plan in our Equality Report for 2015-16 aimed at narrowing our overall gender, age and ethnicity pay gaps and increasing workforce diversity.

Making more effective use of data and information technology



In April 2016, we launched an internal programme of work to facilitate strategic transformation of audit, with an initial focus on our use of data and technology.

We have also started work on a study that will take a whole-system look at the planning, delivery and management of national clinical ICT systems across Wales.

There has been no need to deviate significantly from the planned work programmes of the Auditor General and Wales Audit Office for 2016-17

All of our planned work for 2016-17, as laid out in Appendix 1 of our [Annual Plan](#), has either been delivered, or is progressing to plan.

Appendix 1 – Detailed information on the programmes of work carried out by the Auditor General and the Wales Audit Office from 1 April 2016 to 30 September 2016

Some highlights are:

Audits of the accounts of over 800 public bodies, and providing timely audit opinions on the 2015-16 accounts of all NHS, central government and principal local government bodies.

Improvement audits and assessments of 28 local government bodies, and the publishing of 14 annual improvement reports and two more detailed corporate assessments.

Certification work on local government grant schemes worth approaching £3 billion and involving around 420 individual claims.

A rolling programme of local government and NHS studies, and the publishing of a national report on financial resilience in local government and an all-Wales summary of performance reporting to local health boards.

Local performance audit and structured assessment work at all 10 NHS bodies, and the publishing of two structured assessment reports.

An ongoing programme of value for money studies and reactive examinations that delivered five outputs during the reporting period for consideration by the Public Accounts Committee.

A programme of good practice work that included the delivery of nine shared learning seminars and webinars, and the publishing of a leaflet for NHS board members to support ongoing scrutiny of orthopaedic services.

In the Plan, we indicated that the programme of audit work undertaken for consideration by the Public Accounts Committee retains a degree of flexibility to respond to changing circumstances, priorities and risks, and that the plans for certain value for money studies were under review.

Since publishing our Plan, we have changed the title of some studies as the scope of the work has become more clearly defined.

In July 2016, the Auditor General presented a [memorandum paper to the Public Accounts Committee](#) which provided:

- an update on work in progress that could support the Committee's own work programme between July 2016 and summer 2017, including estimated timescales for reporting; and
- an overview of some of the impacts of our recent audit work.

The Auditor General informed the Public Accounts Committee that, following the establishment of a new Welsh Government and programme for government, and taking account of the implications of the result of the referendum on EU membership, we intend to do further work to develop proposals for future studies in light of current opportunities and risks to delivery and value for money across the Welsh public sector. We will report back to the Committee by early 2017 with an updated set of possible topics for future studies for further discussion.

During the period we have also been undertaking a range of work in response to issues of public concern raised through correspondence. In particular, we published a report on our review of the events leading to a start-up business called Kancoat Ltd, which received a package of financial support from the Welsh Government, going into administration.

We are continuing to make good progress towards achieving our three-year priorities

As of 30 September 2016, we are on track to achieve or have completed, work towards achieving each of our 36 three-year priorities, as set out in our Annual Plan for 2016-17. We have already completed work on two of these priorities, which relate to our handling of correspondence and to our delivery of the National Fraud Initiative respectively.

The priorities are grouped in alignment with the eight sections of our Plan. The first six sections of the Plan relate to the Auditor General's work programme, and the two remaining sections relate to the Wales Audit Office's work programme

Appendix 2 – Commentary on the progress we have made during the reporting period towards achieving each of our three-year priorities

Performance analysis

We made good progress towards achieving our key performance measure targets

A framework of key performance measures, centred on seven themes and questions about our activities, was included in our Annual Plan for 2016-17. A suite of targets was also developed with reference to levels of performance at the end of 2015-16 and appropriate benchmarks.

The overall position as of 30 September 2016 in terms of achieving our 35 key performance measure targets is summarised in the remainder of this section.

Where appropriate, we assess our level of performance on a rolling annual basis. For performance measures where this applies, the figures describe our performance for the period 1 October 2015 to 30 September 2016.

We will be undertaking our 2016-17 staff survey during the third quarter of the year. Consequently, our performance in terms of staff survey related targets is based on the measure descriptors published in our 2015-16 Annual Plan, which were slightly amended for our 2016-17 Plan. In advance of undertaking the survey this year, the survey questions are being further reviewed to facilitate improved benchmarking.

Impact

To what extent is our work informing the people of Wales, helping public bodies in Wales to succeed, and valued by our stakeholders?



99%
of our **recommendations** were **fully accepted** for implementation



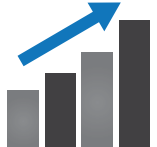
80%
of stakeholders gained **useful insight** through our work



98%
of stakeholders consider the Auditor General to be an **authoritative commentator**



£4.4m
of **potential savings** were identified through our work



79%
of stakeholders believe our work has led to **improvements in public services**



On target



Low risk



Medium risk



High risk

For performance measures where we have yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the target by 31 March 2017

Delivery

Are we delivering our audits on time and to the required quality and professional standards?



100%
of requests to draw funds from the WCF were **processed within 24 hours**



92%
of audit products were **delivered on time**



100%
of audits were delivered in accordance with **quality standards**



23
good practice products were **delivered**



16
National reports were published



Leadership

Are our governance and leadership arrangements operating effectively?



97%
of stakeholders said they have **confidence in our work**



98%
of staff agree that their **performance is evaluated fairly**



69%
of staff feel **encouraged** to come up with new and better ways of doing things



75%
of staff feel **trusted** to carry out their job **effectively**



64%
of **staff feel engaged** with our strategic approach



On target



Low risk



Medium risk



High risk

For performance measures where we have yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the target by 31 March 2017

Financial

How well are we managing our finances and assets?



£3,382
estate cost per
whole-time equivalent
member of staff



£1.075m
of cost savings or
additional income
identified throughout the
business for 2016-17



74.8%
of suppliers paid
within 10 days of
receipt of invoice



Annual spend forecast
to be within
0.5%
of budget



£322.4k
of aged debts
aged over 60 days



Social

How well are we promoting and supporting equality, well-being and learning?



80%
of staff feel that they are
able to access appropriate
learning opportunities



0 complaints
were received and
upheld regarding our
Welsh language provision



69%
of staff feel that they are able
to strike a good balance
between work and private life



On average
7.2 days were
lost through sickness
per member of staff



66%
of staff feel that they are
treated fairly and with
respect



On target



Low risk



Medium risk

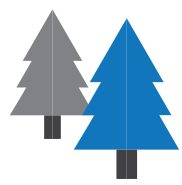


High risk

For performance measures where we have yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the target by 31 March 2017

Environmental

How well are we managing our impact on the environment?



Accredited at
Level 4
of Green Dragon
Environmental
Standard



Produced
536
tonnes of CO₂
equivalent **emissions**



69%
of our waste
was **reused,**
recycled or composted



Consumed
2,120
reams of **paper**



Produced
53.8
tonnes of **waste**



Communication

How well are we raising awareness of and encouraging engagement with our work?



1,101
people **attended**
our **shared**
learning **seminars**



94%
of **media articles** published
about our work with **positive**
or **neutral sentiment**



Klout
score of
53



Staff were **invited to**
present audit learning at
31 externally hosted
conferences and events



180k
website **page**
views



On target



Low risk



Medium risk



High risk

For performance measures where we have yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the target by 31 March 2017

Appendices

Appendix 1: Detailed information on the programmes of work carried out by the Auditor General and the Wales Audit Office from 1 April to 30 September 2016

Audit work carried out at local government bodies

The Auditor General's programme of work in local government covers a broad range of bodies, including unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, local government pension funds and town and community councils. The programme includes audits of accounts, certification of grant claims and returns, improvement audits and assessments, and local government studies.

Audits of accounts

- 22 unitary authorities
- 3 fire and rescue authorities
- 3 national park authorities
- 4 police and crime commissioners
- 4 chief constables
- 8 pension funds
- A number of other smaller local government bodies including joint committees and harbour authorities
- Limited assurance audits of over 740 town and community councils

Certification of grant claims and returns

Up to 25 schemes worth approaching £3 billion and involving around 420 individual claims

Studies completed or substantially completed

- Financial resilience of local authorities in Wales 2015-16
- Charging for services and generating income by local authorities
- Community safety in Wales

Improvement audits and assessments

- 22 unitary authorities (including six more detailed corporate assessments)
- 3 fire and rescue authorities
- 3 national park authorities

Ongoing studies

- Council funding of third sector services
- Fit for the future (themed reviews) of financial resilience, good governance and transformational change
- How local government manages demand - homelessness services
- Strategic commissioning of learning disability services by local authorities
- Improving wellbeing through housing adaptations

Audit work carried out at NHS bodies

The Auditor General's work across NHS Wales covers all seven local health boards and the three NHS Trusts, as well as the work of the Welsh Government's Health and Social Care Department. The Auditor General audits the annual accounts of each NHS body, and reports publicly on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources.

Audits of accounts

7 local health boards
3 NHS trusts
Local health board summarised accounts
NHS trusts summarised accounts

Structured assessments

7 local health boards
3 NHS trusts
All-Wales summary of performance reporting to local health boards

Local performance audit work

7 local health boards
3 NHS trusts

Studies completed or substantially completed

NHS Consultant Contract (follow-up study)
Emergency ambulance services commissioning arrangements

Ongoing studies

Radiology services
GP Out of Hours services
Discharge planning

Audit work carried out at central government bodies

The central government sector in Wales covers a diverse range of public bodies, including the Welsh Government and its sponsored bodies, the offices of various statutory commissioners, inspectors and regulators, and the National Assembly Commission. Unlike for local government and health bodies, the Auditor General is not required to conduct a programme of performance audit work at each central government body, but instead only provides an annual opinion on their accounts. Performance audit work conducted within this sector sits within his programme of value for money studies.

Welsh Government accounts

- Welsh Government Consolidated Accounts
- Non-domestic Rating Account
- Welsh Consolidated Fund receipts and payment account
- Whole of Government Accounts
- Approval of payments out of the Welsh Consolidated Fund

Accounts of Welsh Government sponsored bodies

- Arts Council of Wales
- Arts Council of Wales Lottery Fund
- Care Council for Wales
- Higher Education Funding Council for Wales
- National Library of Wales
- National Museums and Galleries of Wales
- Natural Resources Wales
- Sports Council for Wales Main and Trust Accounts
- Sports Council for Wales Lottery Fund
- Local Democracy and Boundary Commission for Wales
- Qualifications Wales

National Assembly for Wales accounts

- National Assembly for Wales Commission
- Assembly Members Pension Fund

Accounts of commissioners, inspectors and regulators

- Children's Commissioner for Wales
- Older People's Commissioner for Wales
- Public Services Ombudsman for Wales
- Welsh Language Commissioner
- Estyn
- Education Workforce Council
- Future Generations Commissioner

Welsh Government companies

- Hybu Cig Cymru
- Careers Wales
- Life Sciences Hub
- Sector Development Wales

Audit work undertaken for consideration by the Public Accounts Committee

This programme of audit work includes value for money examinations, the preparation of summary reports of the findings from audit work across multiple NHS, central government and/or local government bodies, and examinations undertaken in response to issues of public concern identified through our audit work or raised with the Auditor General. The outputs from much of this programme support the work of the National Assembly's Public Accounts Committee and potentially other Assembly committees.

Value for money studies, summary reports or reactive examinations completed

Welsh Government funding for Kancoat Ltd
Coastal flood and erosion risk management
National Fraud Initiative 2014-15
Rail services
Hospital catering and patient nutrition, a review of progress - memorandum for the Public Accounts Committee

Summary reports in progress

Medicines management
Outpatient follow-up

Ongoing value for money studies

Welsh Government oversight of further education institutions' finances and delivery
Regional education consortia follow-up – memorandum for the Public Accounts Committee
Preparedness for the introduction of fiscal powers
Waste management
School places and capital investment in schools
Public procurement – landscape review
Implementation of the NHS Finance (Wales) Act 2014
Supporting People programme
NHS Wales informatics services
Access to public services with the support of specialist interpretation and translation

Ongoing reactive examinations

Governance review of the National Library of Wales
Governance and oversight of arms-length bodies

Good practice work

Our approach to knowledge exchange has been developed and applied with increasing success over recent years. One of the two main strands of our approach is the provision of freely available online resources that enable the public, service users, service providers, policy makers and decision makers to access information that will leave them better informed. In particular, we aim to promote the sharing of this information across organisational, geographical and international boundaries.

Our other strand of activity involves facilitating conversations where the learning from comparative successes and failures is shared face-to-face. Increasingly we are looking to bring the views and experience of global experts to these conversations.

Shared learning seminars delivered

Future wellbeing of internal audit
Embracing complaints: opportunities to improve your organisation
The future of governance: effective decision making for current and future generations
Redesigning public services: the strategic importance of digital

Shared learning webinars delivered

Open data

Good practice guides delivered

Leaflet for NHS board members to support their ongoing scrutiny of orthopaedic services

External facilitation of shared learning and community support

Academi Wales summer school
Cardiff University
Centre for Public Scrutiny (Wales)
Effective Services for Vulnerable Groups programme
Future Generations Commissioner
Good Practice Wales
Nesta
NHS Wales Shared Services Partnership
Office for National Statistics
Open Data Institute
Public Health Wales
Public Services Ombudsman for Wales
Sport Wales
Wales Centre for Behaviour Change, Bangor University
Wales Council for Voluntary Action
Welsh Local Government Association

Joint working activity

Over the reporting period, the Auditor General and Wales Audit Office have continued to exercise their commitment to effective stakeholder engagement to inform the development, maximise the relevance, and extend the reach and impact of the Auditor General's work. Consistent with our Plan, we have also worked closely with the other UK audit agencies and with the other main external review bodies in Wales to enhance the collective impact of our work, and have undertaken a small amount of commissioned audit work.

Joined up delivery

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake inspections of the Regional Education Improvement Consortia

Annual certification of the accounts of the European Agricultural Guarantee Funds

Follow-up joint review with Healthcare Inspectorate Wales of governance arrangements at Betsi Cadwaladr University Health Board

Development of a memorandum of understanding with the Future Generations Commissioner

Membership of external working groups

These include:

EURORAI

International Integrated Reporting Council's Public Sector Integrated Reporting Network

Public Audit Forum

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards Panel

Inspection Wales initiative

DWP Housing Benefit and Welfare Reform UK Inspectorates liaison group

Commissioned audit work

A range of charity audits

Chief Auditor to and audit of the accounts of the Government of Anguilla

Waste management and trade refuse benchmarking groups

Participation with observer status on external working groups

These include:

Partnership Council for Wales

Welsh Revenue Authority Implementation Board

Finance Minister's Welsh Tax Forum

CSSIW Local Authority Inspection Framework Board

Local Government Data Unit Board

Fire and Rescue Service National Framework Project Board

Financial Reporting Council Public Sector Advisory Group

NHS Wales Efficiency, Healthcare Value and Improvement Group

Appendix 2: Commentary on the progress we have made during the reporting period towards achieving each of our three-year priorities

Commentary on the progress made towards achieving our priorities for local government audit work

Three-year planned priorities	When	Progress	Commentary
Undertake local assessments and provide all-Wales overviews of the corporate capacity of local government bodies to deliver transformation and change programmes	2016 and each year thereafter	On track	Our 2016-17 programme of local government performance audit work includes three 'fit for the future' thematic reviews. The reviews will separately focus on examining: governance arrangements; financial resilience; and transformational change programmes. Delivery of the reviews is planned for the remainder of 2016-17.
Better integrate the planning and reporting of our local audit of accounts and performance audit work, particularly in relation to examining the effectiveness of governance arrangements	2016	On track	We are in the early stages of developing and testing our approach for discharging the Auditor General's duties under the Well-being of Future Generations (Wales) Act 2015. This work is likely to lead to better integration of the planning and reporting of our local audit of accounts and performance audit work from 2017-18 onwards.
Prepare, including through working with relevant stakeholders, for the introduction of faster closure of local government accounts	2016-2018	On track	Accounts opinions for three unitary authorities were delivered much earlier this year than in previous years. The post project learning from these audits will further inform our preparations for the formal introduction of faster closure of local government accounts.
Develop and pilot an outcome-based approach to grant certification for local government accounts	2016-17	On track	Development work on our new outcome-based approach to grant certification work is now complete. The approach will be piloted at two unitary authorities during the autumn of 2016. Evaluation of the pilot will then be undertaken in spring 2017 with a view to rolling out the approach across other authorities later that year.
Provide more informative reporting on the effectiveness of governance arrangements through our modified framework for the audit of town and community councils	2016	On track	We applied our modified framework to the audit of 2015-16 accounts of town and community councils, and intend to publish our first summary report on the effectiveness of their governance arrangements in autumn 2016.

Commentary on the progress made towards achieving our priorities for NHS audit work

Three-year planned priorities	When	Progress	Commentary
Undertake comparative assessments of governance arrangements in NHS bodies with a view to identifying and sharing good practice in specific areas that NHS bodies have found difficult and problematic	2016	On track	Through our 2016 structured assessment work at NHS bodies, we will be undertaking comparisons of board assurance frameworks, approval and monitoring arrangements for Integrated Medium Term Plans, and finance report content. The areas selected for comparative examination were chosen following engagement with the all-Wales Board Secretary group and individual NHS bodies. Delivery of this work is planned for the remainder of 2016-17.
Participate fully in the escalation intervention protocol to identify and respond to serious issues affecting service delivery, quality and safety of care and organisational effectiveness across NHS Wales	2016 and each year thereafter	On track	The Wales Audit Office continues to participate fully in the escalation and intervention meetings involving ourselves, Healthcare Inspectorate Wales and Welsh Government officials. At the most recent round table meeting on 21 July 2016, it was agreed that Welsh Government would escalate three health boards to 'targeted intervention' – Abertawe Bro Morgannwg University Health Board, Cardiff and Vale University Health Board and Hywel Dda Local Health Board; and to de-escalate the Welsh Ambulance Services NHS Trust from 'enhanced monitoring' to 'routine arrangements'.
Publish an audit review of the initial operation of three-year NHS integrated delivery plans	2016-2017	On track	Fieldwork for this review is currently underway. We are focused primarily on the financial benefits of integrated medium-term planning identified in the Explanatory Memorandum to the NHS Finances (Wales) Act 2014. We are also taking account of the wider planning issues involved in linking financial and service plans and intend to draw on our 2016 structured assessment work to look at aspects of local planning under the Act.

Commentary on the progress made towards achieving our priorities for central government audit work

Three-year planned priorities	When	Progress	Commentary
Publish an annual overview report on the results of audit work undertaken within the central government sector	2016 and each year thereafter	On track	We will be publishing our first annual overview report on the results of audit work undertaken within the central government sector towards the end of 2016.
Explore with the Welsh Government the potential for undertaking a cyclical programme of governance and performance audit reviews across each of the Welsh Government departments and sponsored bodies	2016-17	Yet to commence	Work on this priority will be undertaken in conjunction with our work on developing the Auditor General's approach to discharging his responsibilities under the Well-being of Future Generations (Wales) Act 2015.
Provide the National Assembly's Finance Committee with an audit commentary on preparedness for the introduction of fiscal powers and on progress made throughout the planning and implementation stages	2016-2019	On track	Scoping work on the Auditor General's initial preparedness review has commenced, which is planned for publication in November 2016. A further review is intended for publication in September 2017, prior to the introduction of fiscal powers in April 2018.
Evaluate and prepare for the accounting and audit implications of the implementation of Welsh fiscal powers	2016-2019	On track	We are liaising closely with Welsh Government and National Audit Office officials on all aspects of fiscal devolution to Wales, and are preparing for the accounting and audit implications of Ministerial policy decisions and associated UK/Welsh legislation as these emerge.

Commentary on the progress made towards achieving our priorities for Public Accounts Committee audit work

Three-year planned priorities	When	Progress	Commentary
Increase the impact of, and engagement with, our public reporting through enhancing the design of our reports and broadening our communication channels	2016-2017	On track	We have made efforts in 2016 to raise awareness and provide training to staff on the importance of conveying audit findings with visual impact and simplicity. In particular, this has served to help us ensure that our design content can be adapted for social media channels to further enhance our communication and engagement. We are increasingly seeing the media placing infographics from our reports on their online channels.
Enhance our work that examines whole systems and the linkages between service providers, including in particular the interface between health and social care provision	2016-2018	On track	We are adopting a more co-ordinated approach in our current whole system review of housing adaptations and discharge planning arrangements. Through aligning the timetables for information and data requests, and by undertaking joint interviews with NHS bodies, local authorities and registered social landlords, we will be better placed to identify issues at the service interface.
Following the 2016 Assembly elections, develop a constructive relationship with the new Public Accounts Committee and identify ways to further enhance support for their scrutiny work	2016-2018	On track	A constructive relationship is being established with the new Public Accounts Committee. Our staff maintained communication with the clerking team during the first quarter of the financial year, and provided the Committee with a memorandum summarising our core programmes of work. In September 2016, our staff met with Committee members to discuss in more detail the work of the Auditor General and Wales Audit Office and the Committee's ways of working.
Raise awareness of the work of the Auditor General and Wales Audit Office amongst Assembly Committees, including through contributing to the induction of new Assembly Members after the 2016 Assembly elections	2016-2017	On track	Wales Audit Office staff contributed to the preparation of an Inspection Wales briefing for Assembly Members and their advisors on the role and remit of the four partners. Our memorandum for the Public Accounts Committee has been shared with the wider committee support teams and Wales Audit Office staff are taking forward personal contact with clerks and researchers to further develop relationships.

Commentary on the progress made towards achieving our priorities for facilitating the exchange of good practice

Three-year planned priorities	When	Progress	Commentary
Encourage improvements in public services by capturing at least 50 pledges to action from an annual programme of 12 shared learning events, and monitor their translation into action	2016 and each year thereafter	On track	We have captured pledges to action at the end of each of the nine shared learning events held 2016-17. We are also continuing to pilot the 'Randomised Coffee Trials' approach, through which we facilitate follow-up conversations between delegates on how they are implementing their pledges. So far, 97 of this year's delegates have signed up to take part in Randomised Coffee Trials and we are continuing to evaluate the impact of this approach.
Develop programmes of good practice work on key challenges facing public services including governance, planning for the long term, public service transformation, making more effective use of data and information technology, and austerity	2016-17	On track	Through our recent good practice work, we have paid particular attention to raising awareness and understanding of the principles and implications of the Well-being of Future Generations (Wales) Act 2015, while ensuring other key challenges facing public services are also reflected. In addition, our 2016-17 programme of work has been designed with flexibility to respond to emerging key challenges.
Invest in developing and supporting self-sustaining 'communities of interest' amongst public bodies to build upon the momentum generated by our good practice and shared learning activity	2016 and each year thereafter	On track	We are currently undertaking a review of approaches to behaviour change across public services, including through placing a strong focus on the development of communities of practice. Behaviour Change Festivals, held in partnership with Bangor and Swansea Universities, have also been successful in promoting the establishment of new networks, particularly involving the academic sector.
Provide opportunities for staff from across the organisation to share and develop skills through participation in good practice work and shared learning activities	2016 and each year thereafter	On track	During the first two quarters of 2016-17, 22 staff from our financial audit, performance audit and corporate enabler teams have been involved in the delivery of shared learning activities, including in relation to internal audit, digital complaints handling and behaviour change festivals.

Commentary on the progress made towards achieving our priorities for joint working

Three-year planned priorities	When	Progress	Commentary
Embed arrangements for more effective management of correspondence received from the public or other interested parties about matters relevant to the Auditor General's functions	2016	Complete	We have now embedded improved arrangements for managing correspondence. In particular, we have recently enhanced our internal reporting arrangements to ensure senior management are fully sighted of progress made on live correspondence and on the timeliness of our responses. We will report publicly on how we have performed in this area in our Annual Report and Accounts for 2016-17.
Make use of the results of our stakeholder feedback to further our sector understanding and relationships with audited bodies to both better inform our work programme and contribute to developments and improvements across the public sector	2016 and each year thereafter	On track	Since our stakeholder survey was completed in early 2016, the Auditor General has met with a number of individuals to explore and discuss in more detail the issues raised in their responses to the survey.
Further enhance our engagement with the public, their representatives and other stakeholders to gauge the impact of our work, assess our performance and measure our success	2016 and each year thereafter	On track	Following on from the success of our presence at last year's Royal Welsh Show, we exhibited again at this year's Show in July 2016. We jointly exhibited with our Inspection Wales partners to raise awareness of and increase engagement with our work.
Encourage participation in the National Fraud Initiative from a greater range of bodies in receipt of public funding, and expand the information used in the data matching exercise	2016	Complete	The next NFI exercise will commence in October 2016. In advance of that exercise, we wrote to 34 other bodies in receipt of public funding (sponsored bodies, registered social landlords and universities) inviting them to participate, with a positive response from eight of those bodies. The information to be used in the data matching exercise has now been expanded to include housing waiting list and Companies House data.
Further enhance the efficiency and effectiveness of audit, inspection and regulation in Wales through working closely with Inspection Wales partners to realise more efficient working practices and achieve greater impact through joint working and the sharing of intelligence and resources	2016 and each year thereafter	On track	We continue to work closely with our Inspection Wales partners to achieve greater impact and realise more efficient working practices. During the reporting period we commenced some scoping work with a view to undertaking, during the next financial year, a thematic review to be delivered with Inspection Wales partners on a collaborative basis.

Commentary on the progress made towards achieving our priorities for our governance and leadership

Three-year planned priorities	When	Progress	Commentary
Implement a programme of work to facilitate strategic transformation of audit with an initial focus on making more effective use of data and information technology	2016	On track	A strategic transformation project team was established during summer 2016. The team started work in September 2016 and is due to report back to the Board by the end of the financial year.
Strengthen leadership capability, through a leadership development programme and the continued use of 360° performance reviews for senior staff and supporting reviews of Board effectiveness	2016-2019	On track	Following a tender exercise, the Civil Service College has been selected to work with the Wales Audit Office Senior Leadership Team on strengthening leadership capability, with the first session scheduled for October 2016.
Strengthen our workforce planning arrangements, including through more effective succession planning and more detailed modelling of future demand scenarios	2016-2019	On track	During the reporting period, we have undertaken extensive modelling of the workforce planning implications of the factors we consider will have the greatest influence over the way we deliver our work in the next three to five years.
Monitor the development of our unique governance arrangements working collaboratively with other UK audit bodies, with a view to sharing knowledge, learning and experience	2016-2019	On track	The Board continues to assess its own effectiveness, alongside that of its committees, on an annual basis. To support that work, the Board has engaged an external consultant to undertake a Board effectiveness review. The purpose of the review is to help the Board optimise the collective and individual effectiveness of its members to support delivery of its strategic aims and objectives. Work is substantially complete, and the consultant's final report is due to be published in autumn 2016.
More effectively use external benchmarking and comparison, working collaboratively with other UK audit bodies, to assess our performance and measure our success, and improve our impact	2016-2019	On track	We are currently working with the other UK audit agencies to further develop our use of benchmarking to assess the performance of our corporate services. In addition, we will shortly be undertaking an assessment of our approach to measuring and reporting on the impact of our work, and of how we might further increase our impact.

Commentary on the progress made towards achieving our priorities for our use of resources

Three-year planned priorities	When	Progress	Commentary
Make better use of technology and information management to rationalise and streamline our business systems and processes, through implementation of a rolling three-year ICT plan	2016-2019	On track	We have recently revisited and updated our three-year ICT plan; a summary of the revised plan will be published in our Estimate for 2017-18. The bid for funding will support a range of work, including extending our use of the cloud, and laptop and desktop videoconferencing.
Expand and enhance our existing graduate trainee programme including through establishing a collective programme under which our trainees will spend time working in the wider public sector in Wales	2016-2018	On track	Our first secondments under our new expanded arrangements will commence in late 2016-17.
Keep a tight grip on costs, seek further efficiencies and keep fees as low as possible	2016-2019	On track	A new travel scheme was implemented from 1 April 2016, which will realise savings of around £125,000 per annum following a period of transition. A consultation on our fee scales for 2017-18 is currently underway, which includes a proposal for a cash-terms freeze in our fee rates.
Develop proposals for simplifying and improving the cost-effectiveness of the funding arrangements of the Wales Audit Office, for consideration by the Assembly's Finance Committee	2016-17	On track	We have commenced work on quantifying the impact of the current regime, both in terms of the cost of the necessary administrative processes, and knock-on behavioural impacts, with a view to developing our proposals.
Make better use of our estate to minimise cost and assist flexible audit delivery	2016-2019	On track	We completed the relocation of our North Wales office in June 2016. This move will lead to cost savings, alongside improved environmental performance, and more efficient use of office space. We are continuing to explore other options to make best use of the remainder of our estate.

Three-year planned priorities	When	Progress	Commentary
<p>Demonstrate our corporate social responsibility through our work on:</p> <ul style="list-style-type: none"> • improving environmental stewardship; • promoting the well-being of our staff; • advancing equality of opportunity, eliminating discrimination, and fostering good relations; and • promoting the use of the Welsh language and meeting the new Welsh language standards 	2016-2019	On track	<p>We are continuing to work towards achieving our objective of Level 5 Green Dragon Environmental Standard accreditation during 2016-17. We have already taken steps to increase the proportion of our waste that is reused, recycled or composted, and to improve the accuracy of our waste and emissions reporting.</p> <p>A staff health and well-being screening service was launched in September 2016, which offers comprehensive health and fitness assessments, alongside providing lifestyle advice.</p> <p>In September 2016, we published our annual Equality Report for 2015-16, which provides detail on our recent progress in this area. Since the publication of the report, we have joined the Stonewall Diversity Champion's programme, and have begun to implement our planned actions for reducing our overall pay gaps.</p> <p>We have recently updated our information on staff language skills, and continue to offer regular basic Welsh training courses to staff. In July 2016, we received our compliance notice from the Welsh Language Commissioner, and are currently reviewing how we can ensure compliance with the new Welsh language standards.</p>

Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan

Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru

Document is Restricted

A call for information – Welsh Government draft budget proposals for 2017-18

13TH SEPTEMBER 2016

ANNEX 2 -CONSULTATION QUESTIONS

SUMMARY

WWF Cymru believes it is crucial that the Programme for Government and budget demonstrate Welsh Government's determination to drive through the major changes required by the Wellbeing of Future Generations and Environment Acts.

The budget should be signalling the key changes in approach legally required. For example:

- Addressing long term problems and shifting expenditure to prevention of these problems
- Expenditure should clearly reflect key programmes essential to achieving each goal
- Evidence of integration of action across departments (and organisations) to deliver the goals, reflected in pooled budgets
- Resources, particularly in the business and enterprise portfolio, shifting to prioritising the protection of natural resources for future generations and tackling climate change.

This budget must therefore be the start of the transformational change that a sustainable Wales requires. We don't expect this budget to demonstrate all of our expectations on the delivery of the WFGA but this budget must not be business as usual and should be supported at the very least by a narrative that explains the change process and the overall vision to which it strives.

It is worth noting that assessment on natural capital and climate is not unique to Wales e.g. Natural Capital Committee provides independent advice at UK Government level. We can therefore work with other organisations to develop processes in this complex area.

2. What expectations do you have of the 2017-18 draft budget proposals?

As members of the Sustainable Development Alliance, WWF Cymru expects to see the Welsh Government budget reflect the goals and principles embedded in Welsh law by the Wellbeing of Future Generations Act. The Act requires all Welsh public bodies, including the Welsh Government, to act in accordance with the sustainable development principle. Given that the budget underpins the actions that Welsh Government will take in the next twelve months it is clear that the budget must work in accord with the principles. In general terms this means we would expect to see:

- A clear shift in expenditure towards programmes aimed at preventing problems occurring
- Financial arrangements, such as pooled budgets, that encourage and require collaboration amongst public bodies and facilitate the achievement of multiple goals
- An emphasis on addressing long term problems (such as climate change and the decline of biodiversity)

This will be the first budget to be delivered since the Wellbeing of Future Generations Act (WFGA) came into force. The requirements of the WFGA change the financial landscape for Government as well as 43 other public bodies: Welsh Government are now expected to publish a statement on their wellbeing objectives which also explains how resources are being allocated to meet the those objectives.

It is unclear whether Welsh Government intends the Programme to be its Wellbeing Objectives and whether this will be done alongside the budget. This makes assessment of Welsh Government's fulfilment of its duties hard to predict. WWF Cymru believes transparency is necessary for the proper application of the principle of stakeholder engagement. Stakeholders, such as SD Alliance members must be able to understand and analyse the Government proposals in order to contribute effectively to decision making. Currently we feel there is little transparency.

We would expect to see evidence in the budget and Programme for Government, that:

- A. Government are resourcing key programmes of delivery under *each* goal
 - B. Resources are beginning to shift towards *maximising* the delivery of all seven goals in the WFGA. (i.e. Some integration and pooling of resources)
 - C. Evidence that the SD principles have been applied to decision-making
 - D. Evidence that protection of natural resources for future generations is being given more priority
- A. Government are resourcing key programmes of delivery under *each* goal.**

Subject committees are perhaps best placed to enquire into the detail of changes in budgets and their efficacy in delivering individual goals. For example, the Prosperous Wales goal aims for a low carbon economy, recognising environmental limits, using resources more efficiently and proportionately. This is a considerable change to the previous focus of Government economic development strategy, which should be reflected in a shift in the focus of the spending on economic development and infrastructure. Not only would we expect investment which will leverage private sector investment in these areas but also the removal of environmentally harmful support or subsidies which will not encourage the transition to such a low carbon economy and may counteract progress towards tackling climate change. This will be a challenge for the Enterprise and Business committee and it may require input from CCERA to assist in assessing progress on such a complex goal. Such cross – committee expertise is likely to be required for effective scrutiny of implementation.

B. Maximising the contribution to all the goals

It would seem more difficult for any single committee, except perhaps the Finance Committee, to take an overview of whether the budget is being applied as best it can be to *maximise* contribution to the goals.

However, initial scrutiny could focus on investment in major cornerstone programmes which can contribute significantly to several goals. We consider increased investment in energy efficiency retrofit for houses in Wales - would be such a programme.

C. Evidence that the SD principle has been applied to decision-making

WWF Cymru believes it is important that the following key aspects of the principle are addressed in the budget statement.

- Balancing short term needs with safeguarding the ability of future generations to meet their own needs;

The National Audit Office (NAO) in England has highlighted how longer-term budgetary planning leads to better outcomes, reduced public spending, and greater value for money. It creates the conditions for promoting ‘spend to save’ investment in, for example, preventative and restorative action, the benefits of which may only pay off over the medium to long term.

We would expect to see evidence of long term value for money and returns being used in budget decisions i.e. not cutting spending where it will lead to increased costs in longer term. For example, the cutting of many low carbon energy incentives by the UK government last year has been heavily criticised, as they appeared to be short-term cost-cutting measures that will result in much higher costs to achieve the necessary transition to a low carbon economy in the longer term, particularly as they undermined investor confidence, which could have a persistent effect of dampening investment and mean additional (costly) incentives will be required to catalyse private sector investment in future.

Giving enhanced priority to the longer term needs should also lead to clear statements of long term and increased investment in services which increase ecological and therefore

economic resilience for Wales, as required in the Environment Act—e.g. in soils, biodiversity, water quality and marine and fisheries management

- Taking an integrated, collaborative cross-governmental approach.

WWF has long argued that breaking down departmental silos is crucial for tackling complex, long-term issues at the lowest cost. There's a need to make more use of pooled funding approaches which enable greater cross-departmental collaboration to permit spending by one department that reduces costs for another. Setting aside a specific tranche of budget that is available only for these kinds of proposals would be one way to achieve this.

In order to ensure that departments consider their impacts across the goals, we would like to see an action plan developed for each goal that considers how the actions of all relevant government departments can contribute, and which therefore allocates responsibilities between departments so as to achieve the goal in the most cost-effective way possible, and allocates budget accordingly.

However, for this initial budget, we would expect evidence of change in prioritisation of budget spend, as well as some pooling. For example, will the health budget recognise value of spending on urban trees or energy efficiency to improve health and reduce longer term costs?

We might also expect to see funding to increase collaboration and research between economic and environmental sectors including agriculture and coastal and marine management

- Deploying resources to prevent problems – tackling their root causes

We have supplied further detail on this in Question 4. However, it would be a good step to see some acknowledgement of the need to investigate where WG funding actually creates problems which the public purse subsequently has to resolve e.g. agricultural subsidies which may encourage the pollution of rivers, which NRW then must pay to clear up, or regional economic subsidy which creates waste which needs managing. This is about having an eye on the 'whole system' budget and whole life cost of budgetary decisions.

D. Evidence that protection of natural resources for future generations is being given more priority

WWF Cymru is concerned that this core underpinning objective of the SD principle is properly addressed. Recent evidence on the state of the Welsh environment shows the continued loss of biodiversity within Wales. The need to address this loss and take action on the causes of such loss to ensure future benefits *must* be given higher priority if the Wellbeing duty 'to carry out sustainable development' is to be achieved.

Therefore, we feel that this budget must start to demonstrate an increased investment across government departments in action that will maximise their contribution to the Resilient Wales goal.

WWF's forthcoming Living Planet Report (published 27th October) will highlight the global decline of nature and the impact this has on its services to humanity and species. We rely on these global resources for our wellbeing in Wales and therefore need to take account of the limitations when developing our policies. This issue is represented in Goals 1 and 7 of the WFGA and we therefore expect the PfG and budget to take these into account.

WWF Cymru thinks there are 3 key areas for action which would help transform the way the Welsh public sector protects our natural resources. These are :

- Drive investment in our natural resources
- Incorporate information on natural capital into the annual Budget reporting.
- Develop new tools and approaches for assessing the economic risks associated with natural capital depletion.
- **Drive investment in maintaining and restoring natural capital assets (i.e. our natural resources) .**

We believe that targeted public investment in natural capital, would provide significant benefits to the economy, businesses and communities. The Budget therefore also needs to mobilise private finance at a greater scale, to minimise the burden on the public purse.

Therefore we would expect WG to consider and start to increase its level of investment in natural capital (Sustainable management of natural resources) – and not just through NRW's budget. As stated previously, we would expect to see investment in this green infrastructure included within the budget for national infrastructure.

We believe the Government should develop a natural capital investment strategy that explores potential financing mechanisms for investment in our natural capital (or resources), from either redirected public sources or private sources leveraged through appropriate fiscal or regulatory policy measures. This could include mechanisms such as use of newly devolved taxes, compensation schemes or biodiversity offsetting, or the use of innovative financing mechanisms such as Environmental Impact Bonds, through which finance can be generated for investment in natural capital in the expectation of future public sector savings e.g. from healthcare costs etc. This can represent a cost-effective way to manage the costs of natural capital depletion and raise upfront finance for investment in natural capital.

- **Incorporate information on natural capital into the annual Budget reporting.**

WWF believe that WG must recognise the contribution of natural capital to the Welsh economy and its dependence on both domestic and international natural capital. It is important that the trends in the overall asset base and the extent to which they are affecting service/benefit provision are considered when making budget allocations

We would expect WG to summarise how natural capital information was used to inform development of the Budget. Indeed they should also assess the impacts of the Budget (i.e. the policies and budgetary allocations it contains) on Wales's natural capital and any associated benefits and risks.

If this is not provided then WG should commit to incorporating natural capital information in future budgets, and develop principles setting out how it will be used to inform budgetary decision-making. Indeed, any reports issued from Government in regard to 'state of the economy' based on Gross Domestic Product (GDP) or GVA should be accompanied by information on, for example, the status of natural capital stocks, as well as associated risks, liabilities and maintenance investment requirements. This would give a more rounded picture of progress towards the Prosperous Wales and Resilient Wales goals.

The basis of this information may be provided, in part, by NRW's State of Natural resources report due out in September 2016. However, this will take no account of the resilience of the international resources we rely upon. The resilience of supply chains for Welsh businesses and consumers must become a key consideration. This is essential for the wellbeing of future generations but also to fulfil our 'Globally responsible Wales goal.

- **Develop new tools and approaches for assessing the economic risks associated with natural capital depletion.**

In order to assess whether natural resources are being protected for future generations, WWF Cymru believes WG must develop new tools and approaches for assessing the economic risks associated with natural capital depletion. For example, WWF has proposed conducting natural capital stress tests which look at the economic impact (on different sectors of the economy) of future scenarios relating to natural capital depletion trends, thus better assessing the risks and informing policy to manage those risks.

4. The Committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on the areas identified below?

- Approach to preventative spending and how is this represented in resource allocation (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early)

Preventative spend has not yet been applied effectively in regards to Wales stock of natural capital i.e. its natural resources. As Dieter Helm (chair of England's Natural Capital Committee (NCC)) states, sustainability requires maintaining our stock of natural capital for future generations. The Resilient Wales goal, taken alongside Goal 1's environmental limits, clearly recognises this issue and its importance. Indeed the Environment Act clearly lays this out as an objective for Welsh Government and NRW.

Applying this principle, would ensure more priority for the protection and restoration of Wales biodiversity. We therefore need to see natural capital included in preventative spending. This is recognised by New Economic Foundations work on prevention

http://b.3cdn.net/nefoundation/b8278023a5b025649f_5zm6i2btg.pdf

A common perception is that protecting the environment is too costly. However, there is growing evidence that allowing nature's capital to be lost will be much more expensive in the long run. The NCC warned UK Government that many of the services provided by our natural capital are at high or very high risk. This is already imposing significant costs to UK taxpayers, businesses and landowners .

EXAMPLES OF THE ECONOMIC IMPLICATIONS OF NATURE'S DECLINE

Flooding: it is widely accepted that poor land-use practices in river catchments are a major contributing factor to flooding, and that we need to work more with natural processes than we have in the past (such as by improving soil condition to enhance water infiltration, restoring upstream wetlands to store flood water at source, and planting of trees and re-naturalising water courses to slow water conveyance). The role that the UK's coastal wetlands play in mitigating flooding and storm damage has been valued at £1.5bn per year. Investing in natural capital solutions can be more cost effective in reducing flooding than building man-made structures, as well as producing a wide range of other economic benefits. The potential cost of the winter 2015/16 floods has been estimated to be at least £5bn; costs that will be borne by the UK's insurance sector, businesses, individuals, communities and government. Extreme weather events are also predicted to become more frequent under climate change scenarios, exacerbating future flood risks.

Soil degradation: the total annual costs of soil degradation in England and Wales (through loss of organic matter, compaction, and wind and water erosion) have been estimated at £1.2bn a year, including the costs of reduced productivity and carbon emissions from degraded soils.

Overfishing: overharvesting of many wild fish stocks has dramatically reduced yields, leading to lower economic returns to coastal communities. The NCC estimated that the UK fishing industry could generate an additional £1.4bn in annual revenues if UK fish stocks were recovered to the average levels seen before the 1970s.

Air quality: some 50,000 people a year are dying prematurely in the UK because of air pollution. The annual health, environmental and CO₂ costs of air pollution from UK industry alone have been estimated at £9.5-£15.5bn. Here in Wales there have already been some trials of payments for ecosystem services, for example by Dwr Cymru and NRW, in improving water quality by investing in improving land management in river catchments. There is considerable opportunity to develop this approach further in redesigning payment systems post CAP.

Air pollution must be tackled by much more integration of infrastructure spending, particularly with environmental and health benefits. Such improvements will prevent future high costs to the health service. Similarly with our earlier example on energy efficiency measures which can produce warmer homes and improve health outcomes.

Over recent years, there has been a considerable under investment in marine capacity within Wales. The Wales marine plan is now considerably overdue. These plans were intended to provide integrated and sustainable approaches to protecting and utilising our seas. The delay will not provide the certainty that investors, such as in marine renewables, require.

This lack of capacity in marine planning makes preventative spending more difficult. Furthermore, for the environment a precautionary approach – not just a preventative one is required. There is often reluctance when making development and investment decisions to recognise the need to take this approach to avoiding serious harm. There was much discussion on this in the development of the Environment Act and government felt it was not necessary to reiterate this principle. Given that it was already required under environmental legislation. While the latter is true, it is rarely accepted as a form of cost saving. I.e. it is intended to prevent future harm to the environment which might have unforeseen consequences for ecosystem services and is also likely to be very costly to correct.

Finance can be raised through a preventative approach as well. An **Environmental Impact Bond (EIB)** is a financial vehicle that monetises the future savings that will be generated from a particular natural capital investment, by allowing the managers of that natural capital to borrow the money upfront in order to undertake the required investment, and to repay the money later when the savings have been realised. This is a fairly new and innovative concept, and one which is modelled on Social Impact Bonds (SIBs), which are structured in a similar way, but involve investments in socially beneficial outcomes.

This kind of approach is being developed in the USA, through a project which it is hoped will enable the US Forest Service to ‘borrow’ from their own future wildfire fighting funds in order to pay for current wildfire prevention, thus reducing future costs by more than the amount borrowed, which means they will be able to pay back the loan and have some money left over, creating a virtuous cycle in wildfire-prevention financing¹.

- Sustainability of public services, innovation and service transformation

Much of the £15 Billion public expenditure in Wales is spent through other parts of the public sector, including local government, (who deliver services on behalf of their communities), regional health bodies and bodies with a ‘whole Wales’ remit. WG influences policy, governance and performance frameworks for these bodies. This means that WG have a clear role in creating the conditions for others to respond to the WFGA. This is a major opportunity to drive the WFGA framework across public service through the budgeting process ensuring innovation and service transformation. The budget should be giving **clear signals that from now on this will be the case.**

WG should also be looking at what budgeting or financial requirements are posing barriers to delivery of the WFGA and committing to work with public bodies to remove these. These may include short term budget allocations, and cost benefit analysis processes which overly discount future benefits and so prevent ‘spend to save’ approaches.

- Preparation for the UK to leave the EU

There is a clear opportunity afforded by the replacement of European funding to design public spending in Wales to better deliver the goals of the WFGA. This, and the Environment

1

https://static1.squarespace.com/static/536569a7e4b0d9a600e01117/t/54cbca0fe4b063bf2a96a996/1422641679629/2-pager_jan15.pdf

Act, should be the clear frame for the plans to replace EC funding in Wales. In particular, the budget should resource work on the replacement of the Common agricultural policy with a more integrated system which reduces the harmful impacts of agriculture and encourages the sustainable management of natural resources and resilient ecosystems (as required by the Environment Act. As has been proposed in earlier sections, there are many budgetary approaches that should be being developed in the next two years to enable this transition.

- Low carbon budgeting and preparing for the Future Generations Act

WWF Cymru's framing of all our responses is aimed at the effective implementation of the WFGA and Environment Acts. Please therefore refer to all of our response for expectations under the WFGA. Low carbon budgeting is one important aspect of this which we discuss further in this section.

This is the first time a budget has to be developed subject to the new duties in the WFGA so it is extremely important that it clearly shows a change in approach is in motion and WG recognises the challenges and opportunities this provides. Tackling climate change is a key aspect to sustainable development and is identified within three goals of WFGA (1, 2 and 7). The budget should therefore clearly identify how it is addressing this issue.

As explained in answers above there are a number of policies and approaches we expect to see as part of a sustainable budget which would tackle climate change – both emission reduction and also preparing for the adaptation required for climate change e.g. Energy efficiency is a key policy for reducing emissions; green infrastructure can support adaptation to climate change in numerous ways.


Another way to assess the impact of budget on emission reduction is via a 'carbon impact assessment.' This tool has been used in a number of countries including Scotland which has a legal requirement for this process through their Climate Act². This makes carbon a variable that needs to be considered and without this it is unlikely it would.

A carbon impact assessment is a similar approach to the use of the Equality Impact Assessment referenced in the letter from Cabinet Secretary to the Chair p.7³. Our understanding is this impact assessment is based on equalities evidence only because it's a requirement under the Public Sector Equalities Duties. A similar impact assessment for carbon would demonstrate WG's commitment to tackle climate change and give it a similar status to equalities issues.

Stop Climate Chaos Cymru recommended this was a legal requirement within the Environment Act. This amendment to the Act was not passed by the WG so we recommend that the Committee highlights this as an expectation on WG as part of the WFGA.

The Scottish carbon impact assessment method is not directly transferable as we have a different legal framework and carbon budgeting system (e.g. they have yearly targets we have

² Carbon Assessment of budget <http://www.gov.scot/Resource/0049/00491254.pdf>

³ [FIN\(5\)-05-16 PTN2 Letter from the Presiding Officer to the Chair – 16 September 2016, item 3.2](#)  PDF 378 KB

5 year budgets). We also do not have the data available in Wales to undertake the same assessment due to no economic Input / Output tables for Wales. This lack of Input / Output data is a considerable issue for assessments in a number of areas and should be highlighted by the Committee and something that urgently needs to be addressed by WG.

WWF Cymru also recommends that lifecycle assessment is used for major infrastructure projects. Lifecycle assessment is more in line with the SD principle of the WFGA especially long term and preventative approach.

We therefore recommend the Committee suggests that, under the WFGA, WG should specifically identify the carbon impact of the budget –i.e. its contribution to emissions in Wales and globally. It is unlikely WG intend to provide this as it was not something it wanted to incorporate into the Environment Act. At the very least for this 1st budget WG should provide an outline of the carbon contribution of the budget (e.g. total emissions contributed by the draft budget and key areas which generate these emissions across the portfolios) with expectations it develops an effective comprehensive methodology for the next budget. This maybe something that links into the natural capital assessments we have recommended. The most effect method for Wales will need to be developed with stakeholders.

- Impact of the Welsh Government’s legislative programme and whether its implementation is sufficiently resourced

See earlier comments on Env Act and WFGA

- Scrutiny of Welsh language, equalities and sustainability

We have commented on achieving sustainability through the delivery of the changes required by the WFGA throughout our response.

5. The previous Welsh Government have highlighted that the Draft budget 2017-18 will be aligned with national indicators for Wales.

WWF Cymru is unsure why this might be being proposed. As Welsh Government have stated repeatedly, the National indicators are population level indicators of progress and Welsh government alone cannot hope to improve them.

Following previous rationale, we would expect that Welsh government sets its own objectives to meet the Goals(Programme for government) and then sets performance measures for those. Then we would expect the budget to be set to achieve this. There may therefore be some disunity between these two approaches. The indicator approach might also mitigate against a cross departmental and integrated approach.

However, our biggest concern is that the outcome of such an approach will be an indicator-led public sector, developing a whole industry of reporting and compliance around resource use. WWF Cymru believes it would be far better to align the budget around the goals and demonstrate how the SD principle is being applied to allocation and financial reporting

It should also be obvious that there will be outcomes from WG funding that aren't covered by the indicators. The indicators are limited set and do not represent everything budget expenditure wishes to achieve.

- What, if any, additional national and local indicators would you like to see as a means of supporting the shift towards a greater focus on preventative spending?

To properly assess the resilience of ecosystems in Wales will require a suite of indicators and will have to look at the quality of different habitats. The current national indicator only includes terrestrial habitats. Therefore if budget were focussed on this there is a danger that work on the marine environment would lose out. Although we support the initial indicators of species and habitat health, focussing spending and assessing its impact will require more detailed evidence.

Indicators or other measures which capture rate of return on upfront preventative spending (in terms of future outcomes and expenditure requirements) would be important to make a credible case to scale up preventative spending, and facilitate access to Environmental impact bonds.

8. Do you feel that allocations made by the Welsh Government are sufficiently evidence based?

No, unless previous methodology has been changed it is unlikely that sufficient assessment will have been made of the impact of alternative investments. For England, the Natural Capital Committee,(NCC) propose the assessment of alternative investments to see which would yield the biggest social, environmental and economic gains. In assessing the most cost effective budget allocations, to deliver on the WFGA, one would also expect the negative consequences and consequential costs to other departments or public bodies to have been assessed before budgets are finalised.

The NCC also propose the construction of an asset risk register, which will capture the state of ecosystem health and resilience, highlight those types of natural capital at greatest risk of depletion and their associated negative economic and social impacts. This would help inform the prioritisation of investment in natural capital assets.

We would also recommend the development of a register of environmentally harmful subsidies, for which internationally recognised methodologies exist.

Another tool to help improve the evidence base and transparency of the budget process would be to set up an advisory group for the embedding WFGA into budget setting. This would be in a similar form to the Budget Advisory Group for Equality (BAGE).

9. What changes to allocations and priorities do you feel need to be reflected in the draft budget 2017-18 and subsequent years as a result of the vote to leave the EU?

In Marine terms, much of the data collection to assess health of seas is European driven and funded. Hm Treasury has guaranteed the maintenance of scientific funding (which provides

for much of the academic research essential to this field) until 2020, but WG must bear in mind the need for this in future.

WWF, like many other organisations has used EC funding to develop knowledge and good practice in management. Our own EC funded Celtic Seas Partnership is soon ending. It has engaged Stakeholders in planning the future of Celtic Seas. Welsh Government engagement on marine has been unsatisfactory. The likely loss of some of the European site officers will not help meet the need for staff capacity and funding to deliver a sustainable future for our seas.

10. What long term planning is carried out to fully deliver on preventative spending strategies and how do you plan for this within short term budget periods?

WG need to develop a long term impact assessment framework and multi-year planning periods to make this effective.

11. What baseline evidence is used to measure preventative outcomes?

There is some baseline data provided on the Welsh environment through SoNaRR and some marine monitoring. However, some future trends assessments are necessary alongside this and some analysis of most cost effective mitigation and restoration measures. This is better provided for in regard to GHG emission data, which is calculated annually to a 1990 baseline and there have been numerous studies on the future trends from different scenarios. The Committee on Climate Change continues this work for the UK. UK Government undertook some analysis of the most cost effective mitigation measures against these trends. This approach needs replicated to measure preventative outcomes.

***For more information, please contact: Anne Meikle, phone: , 02920 454983
email: ameikle@wwf.org.uk***

Response to NAFW Finance Committee:

Call for information – Welsh Government draft budget proposals for 2017-18

September 2016

Introduction

Chwarae Teg exists to deliver our vision of a Wales where women achieve and prosper. We do this by working with women to broaden horizons and build confidence and skills; working with employers to create modern workplaces that are successful by harnessing everyone's contribution; and working with influencers, educators and decision makers to build a society that values, supports and benefits women and men equally.

We are pleased to provide a response to the above call for information. Gender shapes how spending decisions affect people. It's crucial that budgets are developed with this in mind to ensure that no group is disadvantaged as a result of their gender and that spending plans deliver fairly for everyone.

Key messages:

1. The continued commitment of the Welsh Government (WG) to assess the impact of their budget on those with protected characteristics is welcome and should be further strengthened .
2. The Strategic Integrated Impact Assessment should be improved to include a more comprehensive assessment of impact from a gender perspective to aid more effective scrutiny.
3. Steps should be taken to ensure that the impact assessment process is not negatively affected by tight timescales resulting from the timing of the UK Government's Autumn Statement.

In our detailed response below we have provided answers to relevant questions set out in the terms of reference.

Detailed response

1. What expectations do you have of the 2017-18 draft budget proposals

- 1.1. A number of the pledges for the first 100 days of government will need to be included in budget proposals including increasing free childcare to 30 hours

per week for 3 and 4 years olds and delivering 100,000 all-age apprenticeships.

- 1.2. The detail on how additional childcare provision will be delivered is yet to be announced but it is crucial that sufficient funds are provided to local authorities to enable them to deliver the elements they may have responsibility for.
- 1.3. Childcare is a sector where pay tends to be low. Women's dominance in this, and others like it, contributes to the gender pay gap which is one of the national indicators for measuring progress towards the goals set out in the Well-being of Future Generations (Wales) Act (WFG). The budget proposals must ensure that sufficient funds are allocated so that local authorities can commission providers who pay a decent wage and offer good working conditions. Without this there is a risk that the principles of the WFG Act could be undermined.
- 1.4. 100,000 new apprenticeships will likely see significant investment and it's important that this delivers benefits to both men and women. While take-up of apprenticeships is generally gender balanced, analysis of the sectors in which men and women are more likely to undertake apprenticeships shows significant differences.
- 1.5. If the drive is towards higher level apprenticeships in sectors prioritised for growth, such as manufacturing, this spend must be accompanied by action to widen participation to a more diverse group of people.

2. The committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on the areas identified below?

2.1. Approach to preventative spend and how this is represented in resource allocation

- 2.1.1. In the last WG draft budget narrative it was stated that the government were working with the third sector to develop a common definition of preventative spend. We would expect this definition to be included in the forthcoming draft budget narrative to ensure clarity about what is being considered preventative spend.
- 2.1.2. As with all other aspects of the budget preventative spending plans should be subject to gender analysis. Failure to include gender considerations in the scrutiny of preventative spending will result in women being subjected to more negative outcomes.¹ An example used to demonstrate this by the Scottish Women's Convention is investment in early years to improve outcomes for children. They argue that as women's well-being and economic conditions are critical to the welfare of children, failure to consider how investment in early years should also

¹ Scottish Women's Convention submission to Finance Committee Draft Budget 2012-13

address pay and working conditions in this sector, where women dominate, could actually undermine the wider aims of the investment.² Similar analysis can be applied to the Welsh Government's investment in social services.

- 2.1.3. Preventative spending is most effective when based on evidence about the user or community of people who will benefit from the policy.³ This highlights the need for robust, gender disaggregated data to ensure that preventative spending plans will deliver fairly for people of all genders.
- 2.1.4. Women continue to face economic disadvantage as a result of their position in the home and labour market. Women's economic participation rates still lag behind that of men and the gender pay gap is, in part, a product of the occupational segregation still evident in our labour market.
- 2.1.5. As a result of this disadvantage women face different risks of falling into poverty and a greater likelihood of experiencing pensioner poverty and Wales' economic growth and sustainability is hindered.
- 2.1.6. We believe there is scope to consider how preventative spending could be directed to address factors that lead to this economic disadvantage. One example is early intervention to address gender stereotypes, which shape the career choices of young people, through the provision of gender inclusive education and careers advice.
- 2.1.7. This could help to ensure that women play a more active role in the Welsh economy, help tackle poverty in the long-term, drive economic growth and deliver on a number of the well-being goals set out by the Well-being of Future Generations (Wales) Act. .

2.2. Welsh Government policies to reduce poverty, mitigate welfare reform and prepare for an aging population

- 2.2.1. While tackling poverty is still regarded as the responsibility of all members of the cabinet, a notable change from the previous government is the decision to not have a cabinet member responsible for driving this agenda.
- 2.2.2. In this context, we feel there is an even more important role for Assembly Committees, including the Finance Committee, to scrutinise activity aimed at tackling poverty and ensure it is delivering for all members of Welsh society.
- 2.2.3. A gender analysis of the budget would ensure that spend on tackling poverty programmes is likely to address the causes of poverty for all genders.
- 2.2.4. Investment in social care is seen as important preparation for an aging population. The social care sector is characterised by low wages and insecure employment and the workforce is predominantly female. As with

² Ibid

³ EHRC Scotland response to *Finance Committee Inquiry into Preventative Spending* 2010

investment in childcare, it's important to ensure that funding provided to local authorities for the provision of social care is sufficient to support a commissioning process that looks beyond the cheapest option and considers the working conditions and pay of those delivering the service.

2.3. Preparation for the UK to leave the EU

- 2.3.1. Details and timescales for the UK's exit from Europe remain vague but it is assumed that Wales will face a significant shortfall in funds as a result of the loss of structural funding. This funding has supported important programmes, such as our own Agile Nation and Agile Nation 2 projects, that align with Wales' economic priorities and deliver on a variety of the well-being goals.
- 2.3.2. With a likely exit from Europe on the horizon we would urge the Welsh Government and National Assembly to consider how work currently funded by EU funds can be continued post-Brexit. This could be through alternative funding streams or by mainstreaming the approaches used into Welsh Government activity.

2.4. Scrutiny of equalities and sustainability

- 2.4.1. The WG budget continues to be impact assessed through the Strategic Integrated Impact Assessment (SIIA). The move from a basic equality impact assessment aimed to prepare for the Well-being of Future Generations (Wales) Act to include an assessment of wider well-being as well as any impact on those with protected characteristics.
- 2.4.2. An unintended consequence of this move has been a less comprehensive analysis of the gender implications of the draft budget in the SIIA document. While more detailed figures may sit behind the SIIA, to have limited analysis in the document itself risks limiting the ability of the Assembly and other stakeholders to effectively scrutinise the budget proposals from a gender perspective.
- 2.4.3. Last years' SIIA was particularly limited as a result of the late Autumn Statement by the UK Government. While we understand that timescales are incredibly tight it's important that this doesn't negatively affect the impact assessment process.
- 2.4.4. We believe that a full gender analysis of the draft budget would enable more gender sensitive spending decisions to be made and support government departments to better consider how their own spending plans can deliver fairly for people of different genders.
- 2.4.5. In the long-term we support the use of gender responsive budgeting (GRB) tools by all government departments. GRB is "a process for analysing public expenditure and tax revenue with a view to deciding their part in promoting gender equality".⁴ It involves asking key questions

⁴ WENWales *Women's Equality Now: Gender Responsive Budgeting* 2016

such as: Who benefits from state expenditure and how is the spending distributed between men and women? Is the spending meeting both women's and men's needs? and What impact are budget decisions having on work, be it full-time, part-time, paid or unpaid?⁵

2.4.6. Adopting this approach would help to deliver a gender sensitive budget, highlight any gaps between policy commitments and the resources allocated to achieve them and ultimately help the Welsh Government to deliver the more equal, prosperous and resilient nation they aspire to.

3. The previous Welsh Government have highlighted that the Draft budget 2017-18 will be aligned with the national indicators for Wales.

3.1. What, if any additional national and local indicators would you like to see as a means of supporting the shift towards a greater focus on preventative spending?

3.1.1. As outlined above, women continue to face economic disadvantage as a result of their position in the home and labour market. As a result of this disadvantage women's risk of poverty is different, their lifelong earning potential is limited leaving them at higher risk of experiencing poverty as a pensioner and Wales' potential for economic growth and sustainability is limited.

3.1.2. There is a case to be made for directing preventative spending towards addressing the root causes of this disadvantage. The example we have suggested is by delivering gender inclusive education and careers advice.

3.1.3. If this approach were to be adopted, additional indicators that would help to measure progress would include economic participation rates of men and women, maternal employment rates, the proportion of female led businesses in the Welsh economy and occupational segregation in key growth sectors.

4. What spending commitments and priorities would you like to see in the 2017-18 draft budget in order to ensure that progress is being made on reducing poverty and preparing for an ageing population?

4.1. As outlined above, we would like to see a gendered approach taken to tackling poverty. This should include actions to deliver affordable childcare, to improve public transport and ensure it's affordable, provide support for part-time study and training opportunities for women returners and demonstrate an awareness of the need for social care to be adequately funded so as to deliver quality, well paid employment for a workforce that is currently largely female.

⁵ Ibid

5. What changes to allocations and priorities do you feel need to be reflected in the draft budget 2017-18 and subsequent years as a result of the vote to leave the EU?

5.1. A sizeable chunk of the skills budget in Wales comes from EU funds. As Brexit moves closer we would expect to see steps taken to address the likely shortfall that will be left. Crucially, these changes should consider what can be done to ensure that women do not end up disadvantaged by the loss of training opportunities currently provided through projects such as Agile Nation 2.

We would be happy to discuss any of the above in more detail. Please contact:

Natasha Davies
Policy and Research Lead

Natasha.davies@chwaraeteg.com



Dear Chair and Members of the Finance Committee,

Thank you for your invitation to submit evidence to the Finance Committee for its session scrutinising the Welsh Government's Draft Budget 2017-18.

Committee members will recognise that the Well-being of Future Generations (Wales) Act 2015 (the Act) is an ambitious and exciting piece of legislation of which Wales can be rightly proud. This ambition has been recognised by the United Nations:

'The Wales future generations Act captures the spirit and essence of two decades of United Nations work in the area of sustainable development and serves as a model for other regions and countries... We hope that what Wales is doing today the world will do tomorrow. Action, more than words, is the hope for our current and future generations.'
Nikhil Seth, Director, Division for Sustainable Development, United Nations

The Act presents a significant challenge, as well as an opportunity to improve, for those public bodies listed within it, including Welsh Ministers. Whilst I recognise that its implementation will not be easy and will require a fundamental cultural change in the way Government (and other public bodies) do business, the Welsh Government has an important role in leading by example and setting the tone. Cultural change is a process rather than an event and so, over time, I hope to see clear indications of Welsh Ministers making full use of the Act as a tool for change, as opposed to merely 'complying' with its requirements. Demonstrating the use of the Act as a framework for budget setting will be an important part of this. An understanding of and a commitment to applying its principles from each Minister and Department (including the civil service) and the allocation of sufficient time for meaningful scrutiny will be key in giving effect to the spirit and intention of the Act.

The Requirements of the Well-being of Future Generations Act

The Act places a range of duties on the 44 public bodies covered, including the Welsh Government. These bodies are under a duty to carry out sustainable development, defined as *"the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the well-being goals."*

The Act sets out seven national well-being goals which public bodies are required to maximise their contribution to as well as sustainable development principles (ways of working) which outline the way in which public bodies should work.

These principles include:

- Looking to the long term so that we do not compromise the ability of future generations to meet their own needs
- Taking an integrated approach so that public bodies look at all the well-being goals in deciding on their well-being objectives
- Involving a diversity of the population in the decisions that affect them
- Working with others in a collaborative way to find shared sustainable solutions
- Understanding the root causes of issues to prevent them from occurring

I would expect to see all of these principles and the well-being goals being considered in the way in which the Welsh Government allocates resources.

For public bodies including the Government, the core duty in the Act (the well-being duty) is that they must set well-being objectives that maximise their contribution to achieving the well-being goals. In doing so, they must take all reasonable steps to meet those well-being objectives, in accordance with the sustainable development principle. The Welsh Government are required to publish well-being objectives by 5th November 2016.

The Act requires real change in the way we go about business in Wales and the Welsh Government have a key role to play in leading and driving this change. Effective budgeting and planning arrangements provide the foundation for sound public administration. Whilst others are better placed to advise on the merits of different budgetary models, I think there is widespread recognition that short term financial planning and budgeting works against the sustainable development principle as defined in the Act.

The previous Finance Committee produced a report on budgeting in March 2015 - '*Best Practice Budget Process Part 2 - Planning and implementing new budget procedures*' - and whilst the publication predates the Act, the overall approach of its recommendations are relevant and helpful and could be used to frame the way in which the budget is scrutinised from the perspective of the Well-being of Future Generations Act, their sustainable development principles and the well-being goals. They have the potential to create an environment that supports the change required by the Act.

Alignment to well-being objectives

In their last report the Committee recommended that an integrated approach is taken to ensure that well-being indicators and budget headings align with one another where possible. However, care is needed in seeking alignment with the indicators rather than the well-being goals and the Government's objectives when they are set. Both research and practice has identified that many public sector performance management frameworks fail to distinguish effectively between population outcomes and organisational outcomes. The Act is careful to distinguish between these outcomes. The well-being outcomes are population outcomes and require a collective endeavour and collective responsibility of all public bodies in Wales.

I would suggest therefore that the committee should focus on how the budget aligns with the Government's well-being objectives when they are set. Although the objectives are not yet published the timescales are such that the Government should have developed the budget alongside their well-being objectives and they should therefore be able to demonstrate a clear alignment and I would welcome the Finance Committee's scrutiny of Ministers on this aspect in particular.

As the Government have not yet published their objectives it is difficult to see the clear line of sight between them and the budget which would be expected. Section 7 (c) of the Act requires public bodies in setting their objectives to publish a statement "*setting out the steps the public body proposes to take to meet those objectives in accordance with the principle (including how it proposes to govern itself, how it will keep the steps under review and how it proposes to ensure that resources are allocated annually for the purpose of taking such steps)*". I would therefore expect to have seen a better reflection of this within the budget narrative so far and would certainly hope to see a more detailed analysis when the Government publishes its objectives.

The Government's budget narrative has identified how the budget supports the Government's four priority areas for a Wales that is prosperous and secure, healthy and active, ambitious and learning, united and connected. However, it is important to note that the Government will need to outline how their statutory well-being objectives relate to these priority areas, how they relate to the national well-being goals which have specific requirements and definitions (see appendix), and how in turn the budget allocations reflect their obligation to take all reasonable steps to meet them.

Applying the sustainable development principles (ways of working)

As referenced above, the budget will be a key lever for driving the change which the Well-being of Future Generations act requires. Although there is reference in the narrative (appendix F) to the sustainable development principles (ways of working), further information is required to understand whether all of the principles have been applied and whether they have been adequately applied in consideration of the budget as a whole.

Long term

There are a number of proposals which appear to reflect long term thinking which is welcomed, for example the proposals for the South Wales metro, investment in skills for the NHS workforce and the continued commitment to apprenticeships. The recognition of continued trends towards an ageing population and subsequent allocations for social services is welcomed but it will be important for the Welsh Government to use all its levers, including finances, to drive a change in the way social care is delivered with particular reference to supporting well-being and taking steps to prevent higher cost care needs developing through a failure to focus well-being. The Government must also demonstrate how allocations for long term capital spending are balancing the long term social environmental economic and cultural well-being of Wales and are contributing to them meeting their well-being objectives. Although allocation for the M4 is within reserves pending the outcome of the public inquiry this represents a significant area of potential spend where the Government should be able to clearly set out how they have balanced these areas, how they have applied the sustainable development principles and how it contributes to their well-being objectives.

Prevention

The budget allocations should reflect a shift to prevention. An obvious area that we would expect to see this is in respect of allocation for health. The budget narrative states that there is a continuation of primary preventative healthcare measures such as vaccination and population screening and investing in the broader determinants of health through our focus on education, the early years and employment support but this does not seem to evidence the scale of the shift that will be required in moving to the prevention of ill health. The focus on moving services to local communities and primary care is welcomed but budget allocations should reflect how we can reduce demand for these services through preventing ill health as well as making them easier to access.

Steps to prevent climate change and damage to our natural resources are also critically important but there appears to be little reflection of this in the budget narrative. Whilst the allocation of an additional £16m for green growth initiatives is welcome it is questionable whether this will be sufficient to meeting the challenging carbon reduction targets that have been set.

Integration

Further detail is needed to understand the extent to which budgets for each department are integrated and support delivery of all the Government's well-being objectives when they are set. It will be important to move away from departmental siloes in terms of budget allocations and planning and policy development and it will be important for the Government to set out how they intend to achieve this. Integrated use of resources will be important but the way in which programmes are developed, understanding the interconnections with other policy areas and programmes, will be crucial.

For example, the significant investment in childcare is likely to make a significant contribution to a more prosperous and a more equal Wales. However, in investing a significant amount of resource the Government must also demonstrate how the programme can integrate and maximise its contribution to the other well-being goals. The programme should demonstrate how the childcare offer can be formed in a way which contributes to the promotion of healthy lifestyles for children and how it will be linked to work going on elsewhere (led by Public Health Wales) which focusses on the importance of early years and identifying and preventing Adverse Childhood Experiences (i.e. identifying those children who are living in households where there is domestic abuse, substance misuse, mental health issues and parental separation or incarceration – you will find a link to the ACE report [here](#)). The programme should be developed in an integrated way with other commitments, for example; how 100,000 apprenticeships could be aligned with the childcare offer, to opportunities for parents to develop skills to help them into work and how the proposed metro system is planned to support this. Consideration should also be given to how existing initiatives such as Flying Start, Families First and the Foundation Phase would achieve even greater impact if outcomes and delivery became fully aligned and integrated with each other, whilst considering the inter-dependencies of other developments.

Collaboration

Due to the fairly high level commentary it is difficult to see whether collaboration has been fully considered. Clearly collaboration with other parts of the public sector is important but the Government must also demonstrate how they approaching collaboration with the private sector and the third sector.

Involvement

Involvement is a key principle of the Act and whilst consultation on key issues like the budget is important it should also be recognised that this likely to engage key public and third sector organisations and campaign groups rather than the general public at large. The role of elected members acting on behalf of their electorate is therefore very important. I am aware that there have been some very good approaches to involving people in the work of Assembly Committees in the past and this could provide the basis of learning which could be shared with the Government. I would like to see the Government seeking to adopt innovative approaches to broader public engagement on the budget but it will be of particular importance for the Government to engage with people in ways which seeks to understand their experiences and their priorities when developing some of the new proposals in the budget or refining ongoing programmes and policies. It is pleasing to see reference to this in the approach to developing the childcare offer but there is little reference elsewhere in the budget narrative. This may be an area that this committee or others would like to focus on in the future.

In conclusion, in order to maximise contribution to the well-being goals, all public bodies will need to change their approach to financial planning and budget setting and it is my intention to continue over the longer-term to work with them to advise, equip and challenge them to do this.

Thank you for this opportunity to support committee members in their scrutiny of the Welsh Government's draft budget and for the specific focus through the lens of the Well-being of Future Generations Act. I look forward to continuing that support as we develop our work.

Yours faithfully,

A rectangular box containing a handwritten signature in black ink. The signature is cursive and appears to read 'Sophie Howe'.

Sophie Howe
Future Generations Commissioner
Comisiynydd Cenedlaethau'r Dyfodol

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

Document is Restricted

	The Welsh NHS Confederation response to the Finance Committee call for information – Welsh Government draft budget proposals for 2017-18.
Contact:	Nesta Lloyd – Jones, Policy and Public Affairs Manager, the Welsh NHS Confederation. Nesta.lloyd-jones@welshconfed.org Tel: 02920 349857
Date:	20 September 2016

Introduction

1. The Welsh NHS Confederation, which represents the seven Health Boards and three NHS Trusts in Wales, welcomes the opportunity to respond to the Finance Committee’s consultation on the Welsh Government’s Draft Budget proposals for 2017-18.
2. The Welsh NHS Confederation supports our members to improve health and well-being by working with them to deliver high standards of care for patients and best value for taxpayers’ money. We act as a driving force for positive change through strong representation and our policy, influencing and engagement work.
3. With money extremely tight and demand rising, finance and funding can never be far from NHS leaders’ minds. The NHS in Wales, along with other public services, continues to work in an extremely challenging financial climate and it must prioritise and change. Radical transformation of healthcare, and related services, is now the only way in which NHS Wales can hope to be on a sustainable footing for the longer-term. This ‘transformation’ is not only about reshaping healthcare and doing things very differently, it also involves recalibrating our relationship as patients, and the public, with the NHS.
4. If the NHS in Wales is to remain sustainable in the long term the Welsh NHS Confederation believes large scale system change needs to be planned, resourced and supported, rather than allowed to happen on an ad-hoc basis. At the same time the NHS in Wales has a clear duty to provide high quality and safe healthcare services to the people of Wales within the resources available.

Summary

5. The Welsh NHS Confederation has previously welcomed the investment that the Welsh Government has made in the NHS in recent years. NHS Wales faces a significant financial challenge during this period of continuing austerity. We are seeing increasing costs as well as relentless advances in medical technology and increased patient and clinical expectations. Furthermore, an ageing population, combined with more people having increasingly complex needs, means that demand for health and social care services is predicted to grow rapidly.
6. While the fact that more of us are living longer is a success story and should be celebrated, this trend brings about fresh challenges for the NHS. The number of people aged 65 and

over is projected to increase by 50% by 2037.ⁱ

While people are living in good health for longer, this health gain is not distributed equally. Wales currently has the highest rates of long-term limiting illness in the UK, which is the most expensive aspect of NHS care. Between 2001-02 and 2010-11 the number of people with a chronic or long-term conditions in Wales increased from 105,000 to 142,000.ⁱⁱ This figure is expected to rise for a number of conditions, including cancer, dementia and diabetes.

7. Expenditure on the NHS across the UK as a percentage of Gross Domestic Product (GDP) is lower than other countries and declining in relative terms. The real term UK health expenditure as a percentage of GDP is currently projected by the Office for Budget Responsibility to fall from 7.2% to 6.8% by 2019 – 2020.ⁱⁱⁱ This is of real concern and the Welsh NHS Confederation believes that the Welsh Government should commit to provide a settlement for the NHS in Wales that as a minimum keeps pace with GDP growth in the long-term. There is no escaping the fact that the NHS will need more money from Government each and every year if it is to keep pace with inflation and cope with these challenges.
8. The Welsh NHS Confederation recognises that the Welsh Government may not be able to fully fund the pressures facing the NHS in Wales and our members are therefore continually seeking to drive out efficiency savings where they can, but successive years of dealing with financial challenges means the traditional methods of finding savings are unlikely to serve us well in the future. We must recognise that, year on year, the NHS in Wales has to develop more sustainable and sophisticated plans that have got to be delivered within its responsibility to provide high quality care to patients. Ensuring that efficient and safe services are provided within the resources allocated by Welsh Government requires each NHS body, and NHS Wales as a whole, to prioritise spending. This will inevitably mean that difficult choices have to be made on what services are provided.
9. The NHS has made a strong and consistent case for investing in the NHS based on sound economic and social policy. The moral case for transforming how care is delivered to better suit the needs of people today is strong. There is however an equally compelling economic case for investing in the NHS now, so it can better support our society to live healthier lives with less need for medical care in the future. Put bluntly, a strong economy needs a strong NHS. It is increasingly apparent that more of the same is unsustainable. In order to address the continued austerity in NHS Wales and the challenges it brings, our overriding approach now must be for the NHS in Wales to adopt and implement universally a 'prudent healthcare' approach and to have a long-term vision and strategy for health and social care.
10. 'Prudent healthcare' describes the unique way of modelling the Welsh NHS to ensure it is always adding value, contributes to improved patient outcomes and is sustainable. 'Prudent healthcare' also recognises the need to shift to a stronger primary, community and preventative model of care, with closer integrated working with other public services.

11. A strong NHS also needs a strong social care sector. The Welsh NHS Confederation recognises the crucial role of social care as part of a patient's pathway and as a means of helping maintaining people's independence and managing demand on frontline NHS services. Against that background we would support additional investment in social care and other preventative services, such as housing, if the Welsh Government budget allows and we underline our commitment to collaborate with colleagues across sectors; seeking new ways of working to deliver timely services which meet the needs of the people of Wales. The Social Services and Well-being (Wales) Act 2014 and the Well-being of Future Generations (Wales) Act 2015 will help support integration and collaboration across the public sector in Wales.
 12. Finally, to cope with the challenges facing the NHS, the NHS and its partners need to be allowed, enabled and supported to change the healthcare system within the resources available. This will inevitably mean that difficult choices have to be made on what services are provided where and when. Prioritising services and spending means that the people of Wales, NHS staff, partners and politicians must be prepared to accept and support new and different ways of delivering services, while taking more responsibility for how they use those services. As our briefing, *'The 2016 Challenge: A vision for NHS Wales'*,^{iv} produced for the National Assembly for Wales election, highlights politicians should *'Recognise the change in the way we organise care is necessary, and play a leadership role in ensuring debates about change focus constructively on people's outcomes, experiences and well-being'*.
- 1) What, in your opinion, has been the impact of the Welsh Government's 2016-17 budget?**
13. The Welsh NHS Confederation recognises the continuing pressure on public finances and the difficult choices that Welsh Government had to make in setting the 2016-17 budget. As such we welcome the additional £260 million revenue funding for NHS delivery that has been provided, £200 million to meet cost pressures and £60 million for new investments. This has certainly helped our members to fund a range of inescapable recurrent pay and price pressures across the NHS, estimated to be £238 million (c 4.88% of the total 2015-16 NHS Delivery Budget). While welcomed, the additional funding did not cover the funding gap and the health service continues to work hard to meet the ongoing financial challenges through the delivery of Cost Improvement Programmes and efficiency measures. Integrated Medium Term Plans for the current financial year include efficiency plans amounting to £150 million across the ten organisations, the seven Health Boards and three NHS Trusts.
 14. Recruitment and retention of the NHS workforce continues to be the most immediate and significant challenge facing our members and this has created considerable financial pressure in 2016-17, particularly in respect of the costs of agency staffing. Another significant pressure is the cost of new drug therapies, such as the national Hepatitis C programme, and against that background we eagerly await further details around the new treatment fund in 2017-18. In the meantime the need to meet ongoing pressures like

these reduces the ability of our members to meet local pressures or invest in new models of care.

15. The Welsh NHS Confederation recognises the contribution that other public services, especially local government, make to supporting the health and well-being of their population and to helping manage demand on health services. We are supportive of the funding that was given to preventative and social care services in the 2016 – 17 budget and recognise the need for further investment in this area. In particular our members are concerned about the frailty of the social care sector, which is already impacting on NHS demand, performance and finance. There is a real concern that the availability of care services in some parts of Wales is likely to contribute to more delayed discharges and a reduction in unscheduled care performance, particularly as we approach winter (but also beyond).
16. Part of the responsibility of the NHS in Wales, especially in these economically straitened times, is to be open about the difficult choices we face. Of course the NHS can make the current model of care more cost-effective through efficiency by 'doing the right thing', reducing the costs of delivering services and workforce redesign. However, there are only so many costs that can be taken out of the existing models. The challenge here is that there is limited flexibility to shift significant investment away from treatment services when the current demands on the health service are so great. Therefore, this is an extremely difficult, yet vital, task and the health service will need support to do this.
17. In parallel, the NHS needs to channel resources into new care pathways, preventative measures and more cost-effective models of care, which can generate efficiency savings from 'doing the right thing' in the first place. Moving resources into new models of care won't be easy and evidence suggests it takes time to see the benefits. That is why the Welsh NHS Confederation is calling for the Welsh Government to develop a long term vision and ten year strategy for sustainable health and care services in Wales.
18. Prioritising services and spending means that the people of Wales, NHS staff, partners and politicians must be prepared to accept and support new and different ways of delivering services, while taking more responsibility for how they use those services.

2) What expectations do you have of the 2017-18 draft budget proposals?

19. We recognise that the 2016-17 health and social care budget within Government represents more than 51% of the total Resource DEL and that further allocations will result in trade-offs elsewhere in the Welsh Government Budget. In line with the commitments given in the run up to the election our expectation is that the Welsh Government will continue to provide more per head funding for health and social care in Wales than the UK Government provides in England. Beyond that our members are hopeful that the settlement for the NHS will at least keep pace with GDP growth and be in line with the funding requirements forecast in the Nuffield Report 2014.^v We would also want to

ensure that the settlement takes account of any recommendations set out in the eagerly anticipated Health Foundation report due to be published in October this year.

20. Alongside the settlement, NHS organisations recognise the need for and are committed to deliver further efficiency savings to balance their budgets. Since 2010-11 the NHS in Wales has delivered more than £1.1 billion in recurrent efficiency savings through service changes including increasing day surgery rates, providing more care closer to people's homes, service reconfiguration, increased productivity, demand management, pay restraint and more effective prescribing. While the efficiency savings made by the NHS are significant, the annual achievement has been gradually diminishing year on year, a reflection that traditional methods of savings are unlikely on their own to deliver what is needed in the future. There will be a continued focus on driving technical efficiencies from areas such as procurement, estates management and shared services as well as looking at new opportunities for service redesign and the use of digital technologies.
21. The key financial pressures that will need to be met in 2017-18 include, but are not limited to:
- a. The workforce, in respect of capacity to deal with increased demands and the increased cost of the workforce through increments and pension contributions. Currently, around 129,000^{vi} people are employed in the health sector in Wales – the equivalent of 8% of the country's employment – while NHS Wales itself directly employs around 85,000 staff.^{vii} This makes the health service Wales' biggest employer, with the NHS pay bill standing at around £3 billion (more than 50% of NHS spend);
 - b. Non pay cost increases, also through increasing demands, price increases and the increasing demands for high cost drugs;
 - c. Increased volumes of packages of care for patients in the community meeting the continuing NHS healthcare and funded nursing care criteria as a result of our growing elderly population;
 - d. Increased demand for prescribed drugs within the primary care setting;
 - e. The Apprenticeship Levy (estimated to £14 million across the NHS); and
 - f. The NHS Pension Scheme Administration Charge (anticipated to be around £2.5m across the NHS).
22. The capital settlement for the NHS will also be critical and it is hoped that there will be additional capital resources made available to enable the service to address the maintenance backlog in the NHS estate as well as providing the much needed capital to invest in new facilities, such as integrated primary care centres and regional diagnostic treatment centres. The NHS needs additional capital for NHS equipment, ICT and infrastructure. The shortage of capital funding is a very particular barrier to service change. In order to consolidate services and make them more efficient to release revenue

there will need to be a significant investment now and in the future in buildings, equipment and information and communication technology in the secondary care sector but also in primary and intermediate care.

23. The priority for our members is that the 2017-18 settlement, combined with their efficiency plans, needs to meet their immediate recurrent revenue pressures. But we are also committed to shifting resources to preventative and community services as this is vital for the future health and well-being of the population and therefore we support the continuation of the Intermediate Care Fund. The Intermediate Care Fund has helped keep older and vulnerable people out of hospital and in their own homes and has provided the resources to encourage innovation and develop new models of delivery to ensure sustainable integrated services. With the demands on acute provision in Wales it would be beneficial for the Fund to continue.
24. Beyond that the Welsh NHS Confederation is calling for transformation and transition funding (revenue and capital) to be given to NHS organisations to enable them to invest in new models of healthcare and digital technologies that will help the NHS transform to a system that focuses on prevention and the provision of health and care services as close to home as possible. Upfront investment will be crucial and is needed to get new models up and running and transition funding is needed to meet the double running costs associated with moving from one way of working to another.
25. The Welsh NHS Confederation would also like to see the Welsh Government protect, as far as possible, public services that support health and well-being. We are concerned that reductions to local government, housing and voluntary sector budgets will impact on NHS demand and our collective efforts to invest in preventative services. Social care in particular is under severe pressure and the effects of reductions in previous years are already being felt in some NHS organisations, with increase demand on NHS services.
26. Therefore we want to underline our commitment to collaboration with our partners and integration with social care services in particular. The Welsh NHS Confederation believes that Wales, given its size, structure and close links, has a golden opportunity to achieve so much when it comes to integration. The Welsh NHS Confederation works with ADSS Cymru, Wales Council for Voluntary Action, Care Forum Wales, the Welsh Local Government Association and Community Housing Cymru to support the continued implementation of the Social Services and Well-being (Wales) Act 2014. However, to provide patient centred care, collaborative working and transformational change is vital across all of the public sector.

3) How financially prepared is your organisation for the 2017-18 financial year, and how robust is your ability to plan for future years?

27. While the increase in funding is positive news for 2016-17 we are concerned about the proposed settlements within the UK Government Spending Review for the following two years. These settlements will place significant and immediate pressures on healthcare

services in Wales in future years and therefore it is important that the NHS in Wales quickly moves to transforming our health services to contend with this looming pressure. The 'prudent health' care approach will help us work through this but it will require the commitment of the NHS, all healthcare related partners and the general public, to truly be successful. The NHS will need to be supported to make progress in changing the way care is delivered, with patient outcomes at the heart of the measurement of success.

28. NHS organisations are already planning for the 2017-18 financial year. The NHS works together to understand service pressures, for example by looking at population projections and to model the impact of different financial scenarios and this has helped to develop financial planning and management skills across the sector. Financial resilience varies between organisations depending on a range of factors including population, socio economic factors, levels of deprivation and rurality and the configuration of services.
29. The Integrated Medium Term Planning (IMTP) process requires health organisations to plan three years ahead, but their ability to predict and plan the future has been constrained by the annual nature of the Welsh Government budget planning framework in recent years. While the Welsh NHS Confederation recognises the Welsh Government is itself constrained by the UK Government planning cycles, the absence of three year settlements limits the ability of NHS organisations to plan and their appetite to invest in new models of care that may not provide a return on investment in the short term.
30. Against that background indicative future year settlements aligned to the IMTP timetable would be most welcome. Added to this it would be helpful if Welsh Government could set out in detail any specific funding requirements when the budget is published to give the NHS adequate time to prepare for implementation. Delays in informing health organisations of specific commitments can lead to unforeseen pressures on in year budgets which are difficult to manage.
31. Looking to the future the NHS in Wales remains concerned about the scale of the challenge to manage within their likely resources without a detriment to quality, safety and access. Perhaps the largest financial risk is the unforeseen or unfunded pressure on the pay bill, which could easily derail NHS performance, finance and improvement. Add to that the pressure on the NHS continually to develop and accelerate technological advancements (which usually increase cost, rather than save money) and the financial outlook for the NHS is clearly precarious. Against that background we would urge the Government to consider the medium to long term risks to the sector in setting the budget for 2017-18 and beyond.
32. The NHS must be supported to prioritise and change over the next period if it is to ensure efficient, safe and sustainable services are provided within the resources allocated by the Welsh Government. This will inevitably mean that difficult choices have to be made on what services are provided where and when. Prioritising services and spending means that the people of Wales, NHS staff, partners and politicians must be prepared to accept

and support new and innovative ways of delivering services, while taking more responsibility for how they use those services.

4) The Committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on the areas identified below?

33. We note the specific questions the Committee has raised in respect of this question. While we are not responding to all the specific questions posed, we considered it would be helpful to give an overview, from the NHS perspective, of the areas that are most pertinent to the healthcare system in Wales.

Approach to preventative spending and how is this represented in resource allocation.

34. Investment in prevention and early intervention is a priority for our members. However, there is a very real tension between the need to meet the immediate costs of treating those in need of healthcare services and diverting resources into preventative services which may not deliver tangible gains for a number of years. Every NHS organisation is committed to the preventative agenda and is seeking to invest in preventative services, but short term budget cycles reduce their risk appetite and the need to meet inescapable annual pay and price pressures stops them from investing more at the current time. We believe the Welsh Government should support public bodies in Wales to invest where there is firm evidence that investment in preventative services will improve population outcomes and reduce demand on more expensive treatment services in the future. If the Welsh Government was able/prepared to share the financial and performance risk with public sector organisations more could be invested now for the benefit of future generations.

35. All public bodies have a duty when it comes to building a healthier Wales and we should not underestimate the significant opportunities presented to us through the Well-being of Future Generations Act 2015 and the Social Services and Well-being Act 2014. The forthcoming Public Service Boards, introduced as part of the Well-being of Future Generations Act 2015, will enable public services to commission and plan collaboratively, ensuring that services are integrated and that care and support provided improves health and well-being outcomes for the local population now and in the future. Both Acts should help drive collective decision making models within national and regional priorities, especially around service reconfiguration. It is vital for the long term health and well-being of the population that a 'health in all policies' approach is implemented, with all public bodies being required to conduct health impact assessments on future policies. We need to work collaboratively across sectors to help people make healthier choices in life and reduce their risk of developing chronic diseases, many of which are linked to lifestyle.

36. Unless we get serious about prevention, health needs will continue to grow, placing more pressure on our universal healthcare system. Services provided by the NHS in Wales cover both prevention and treatment-based services. Evidence has long been put forward that the amount that the NHS spends on preventative services is too little and that there are significant health and care benefits for investing in preventative services. The NHS in Wales is very supportive of the Public Health Wales report "*Making A Difference: Investing*

in Sustainable Health and Well-being for the People of Wales^{viii} published in July this year which set out research evidence and measures that could be taken to build resilience; address harmful behaviours and protect health; and address wider economic, social and environmental determinants of health.

37. In terms of funding distribution across NHS organisations, relative need in relation to changes in the makeup of the population (for example demonstrated by the Welsh Health Survey) is not used as a driver in determining allocation changes overall or how resources are distributed. The Townsend formula attempted to do this some years ago but it was discontinued. The challenge remains to develop a distribution mechanism which transparently and fairly links need, especially poverty and ageing, to resource.

Welsh Government policies to reduce poverty, mitigate welfare reform and prepare for an aging population.

38. The Welsh NHS Confederation supports the Welsh Government's efforts to reduce poverty, mitigate welfare reform and prepare for an ageing population and believes that these challenges need to be tackled holistically through the public service as a whole. The Joseph Rowntree Foundation^{ix} estimates that poverty costs the UK health care about £29 billion per year and accounts for the largest portion of additional spending associated with poverty. A crude Wales proportion would be about £1.5 billion per year and the report discusses that there is growing weight of evidence that health care utilisation and costs are strongly related to poverty, both as presently experienced and as a legacy from past experiences of poverty. They compute the cost to all public services in the UK as £78 billion per year.

39. As highlighted in our briefing, *"From Rhetoric to Reality – NHS Wales in 10 years' time: Socio-economic Deprivation and Health"*,^x the socio-economic inequalities in life prospects and health are stark. Socio-economic deprivation has a significant impact on child development, on people's lifestyle choices, on healthy life expectancy, including living with an illness or chronic condition, and life expectancy.

40. Sustainability of public services is dependent upon innovation and transformation as explained above. To ensure a safe, high quality and efficient healthcare system in Wales it is necessary to move to new innovative models of care supported by adequate financial, physical resources, a well-trained, multi-disciplinary workforce, supported by technology.

41. Radical change is needed if the NHS is to meet the level of demand being placed upon it while living within its means. Sustainable plans will have to be developed to enable the NHS to deliver financially as well as provide high quality care to patients. This is a significant and complex challenge which will require the support of the political community and the public.

42. For these strategies to be successful requires a collective ambition and an acceptance that change in the way we deliver services will be inevitable. For any change to be successful the Welsh Government, the National Assembly and the public must acknowledge that the priorities for health services in Wales will need to be re-assessed and delivery targets set

accordingly. The current financial position of the NHS means it is very difficult to transform services at the same time as handling ongoing enormous pressures on existing services, finances and resources.

Preparation for the UK to leave the EU.

43. The financial impact for the NHS in Wales will depend on the terms of the agreement and the broader impact on the UK economy, tax revenues and public finances.

44. The influence and impact of EU affairs on the NHS has significantly increased over time, with various aspects of domestic health policy now being intrinsically linked with EU policy. The 'Leave' vote will therefore certainly have far-reaching implications for the NHS despite, at this stage, it being impossible to predict the level of impact, as we do not know which type of new relationship the UK Government would seek, how long negotiations with the EU would last and which outcome there will ultimately be.

45. The key areas that could impact on the health and social care sector are:

i. **Staffing:** Thousands of people from across the EU work in the Welsh NHS and also social care workforce. Wales has been able to fill staffing gaps across the NHS by employing doctors and nurses from the EU. The social care sector is particularly reliant on migrants, many from Eastern Europe, who work for relatively low wages. There are concerns around whether the health and care service can retain the ability to recruit staff from the EU. The Leave vote has created uncertainty on the future rights of these employees. If a significant proportion of EU nationals working in health and social care services were to leave as a result of the present uncertainty, the sustainability of some services and the delivery of high quality services would be jeopardised. With this in mind, the Cavendish Coalition has been created, a coalition of 29 health and social care organisations aiming to ensure sustainable workforce supply and thereby maintaining standards of care as Britain withdraws from the EU.

ii. **Research:** UK organisations are the largest beneficiary of EU health research funds, bringing well over €300m into the country since 2014. EU collaborative research opportunities help the NHS speed up the translation of medical discoveries into healthcare provision. There is a concern that leaving the EU will impact on the free movement of researchers across Europe and the ability of UK researchers to attract research funding. It is uncertain at the moment how we are going to ensure that the NHS continues to take an active part in EU collaborative research and that the UK remains an attractive place for globally renowned researchers to live and work.

iii. **Regulation:** it is unclear whether the UK government will decide to repeal EU regulations and replace them with UK drafted alternatives or continue to abide by them. The key ones are:

- The working time directive;
- Procurement and competition law;

- Regulation of medicines and medical devices;
- Regulation to enable common, professional standards and medical education between EEA countries; and
- Leaving the EU could have a significant impact on NHS procurement and competition regulation.

iv. **Funding and finance:** If there is a prolonged decline in the pound it could lead to higher prices for some drugs and other goods and services the NHS purchases.

46. It is imperative that health and social care is not forgotten when negotiating Britain's exit from the EU and if an economic shock materialises the UK and Welsh Government need to be honest about the implications for patients and service users. Further information around the impact of Brexit can be found in Wales Public Services 2025 briefing "*Impact of Brexit on public services in Wales*"^{xi} published in July 2016.

Performance management

47. Targets have a role to play when it comes to prioritising spending. Waiting times are a key priority for those in the NHS and there is extensive work taking place to address this. While targets have a role to play, policy makers must also look at the bigger picture, which is about instigating a whole system change in the way treatment is delivered to patients and providing the best service we can within the resources that we have. Patient-centred care, which is measured in outcomes, should be driven further through the provision of more services in communities and closer to people's homes. Treatment should be provided in hospitals only when it is absolutely necessary to do so.

48. There are numerous examples within Europe, and the rest of the world, which demonstrate that focusing on improving outcomes for patients rather than focusing purely on inputs improves the quality of care delivered. This approach will also reduce the cost of delivering care. There are several examples of good practice happening across NHS Wales. We would welcome the opportunity to do further work with the Welsh Government to reconsider the performance framework for NHS Wales. This would enable performance to be measured and monitored in a way that will promote improvements in clinical quality and outcomes.

49. Specifically in respect of helping to tackle poverty the Welsh NHS Confederation would support the exploration of population level outcome indicators that were relevant to and could be impacted by the whole Welsh public sector and its partners. Socio-economic deprivation and poverty has a significant impact on the NHS in Wales which is often overlooked. The duties within the Well-being of Future Generations Act 2015 could support this work in the future, especially relating to the well-being goal relating to a 'prosperous Wales'.

Sharing Good Practice.

50. We know that the NHS in Wales must do more to involve the public and patients, staff and partner services in explaining and working through the choices that need to be made.

We must have honest conversations with the public about what the NHS can and cannot provide and what their role and responsibilities are in terms of using health services in the right way and maintaining their own health and well-being.

51. Health Boards and Trusts are committed to improving arrangements for involving all these groups, explaining priorities and continuing the development of a modern, safe, quality, value-for-money health service. There are positive examples from NHS Wales of engaging with the public for the re-design of local services to make savings, including:
- a. Through the local development of services that allow patient activity to be brought back to a local area;
 - b. By developing new service responses to meet increasing demand;
 - c. By creating patient-focused alternatives;
 - d. By shifting services and resources more appropriately to the community; and
 - e. Simply by continuing to focus on more patient activity and efficiency.
52. In addition to the role of Health Boards and Trusts in engaging with the public, politicians must play a leadership role in ensuring that the debate around the NHS is constructive. As our briefing *'The 2016 Challenge: A vision for NHS Wales'*^{xii} highlights, all politicians should recognise that change in the way we organise care is necessary, and help to ensure debates about change focus constructively on people's outcomes, experiences and well-being.

Conclusion

53. The Welsh NHS Confederation does not underestimate the massive challenge of public service budget setting in a time of austerity. The Welsh NHS Confederation, and our members, remain committed to doing the very best we can to continue to provide an NHS, in partnership with other public services, which supports the people who need it most, and helps the population generally live healthier lives. But we can only do what we can afford to do. All parts of the NHS in Wales have been making changes to the way services are organised. The fact is that, with funding very tight, the NHS will have to continue to make difficult decisions about the future shape of healthcare services and about priorities. We will also have to strengthen our relationships with others in order to rise to the many shared challenges that public services face. To achieve all of this, the input and support of the public, politicians and staff is vital.

ⁱ Welsh Government, StatsWales, July 2013. Population projections by local authority and year.

ⁱⁱ Nuffield Trust, June 2014. A Decade of Austerity in Wales?

ⁱⁱⁱ Office for Budget Responsibility, September 2016. Fiscal sustainability analytical paper: Fiscal sustainability and public spending on health.

^{iv} The Welsh NHS Confederation, October 2015, 'The 2016 Challenge: A vision for NHS Wales'.

^v Nuffield Trust, June 2014. A Decade of Austerity in Wales?

^{vi} NHS Wales Shared Services Partnership, January 2015. NHS Wales Workforce: Key themes and trends.

^{vii} Welsh Government, StatsWales, March 2015. Health and Social Care, NHS staff by staff group and year.

-
- ^{viii} Public Health Wales, July 2016. Making A Difference: Investing in Sustainable Health and Well-being for the People of Wales.
- ^{ix} Joseph Rowntree Foundation, August 2016. Counting the cost of UK poverty.
- ^x Welsh NHS Confederation, June 2015. From Rhetoric to Reality – NHS Wales in 10 years’ time: Socio-economic Deprivation and Health.
- ^{xi} Wales Public Services 2025, July 2016. Impact of Brexit on public services in Wales.
- ^{xii} The Welsh NHS Confederation, October 2015, ‘The 2016 Challenge: A vision for NHS Wales’.

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

Document is Restricted

Document is Restricted

Agenda Item 9

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

Document is Restricted