



# Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022

October 2020

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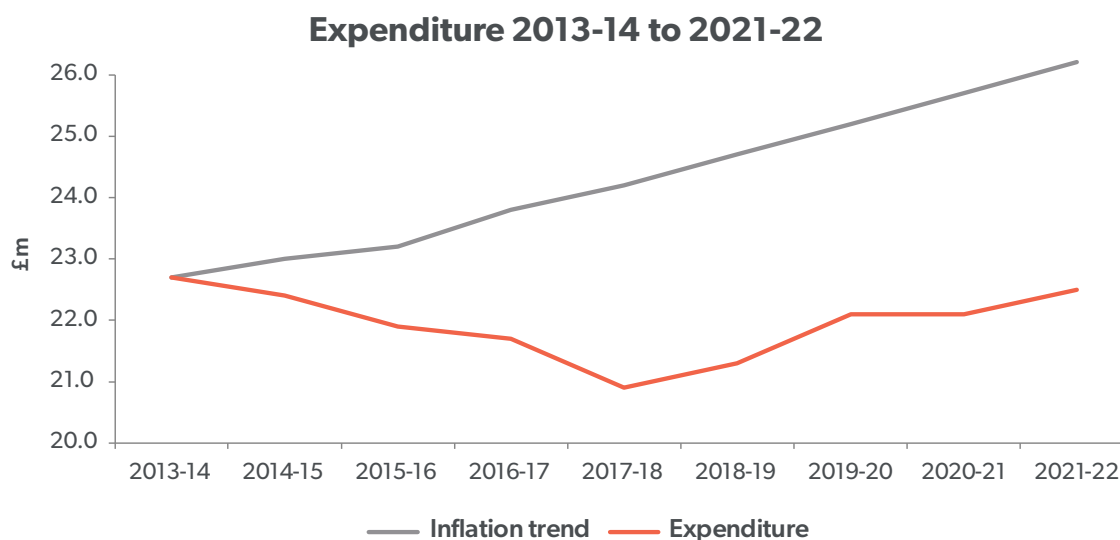


## Value for money at Audit Wales

### Cost of public audit in Wales

- 1 Since the establishment of our Board in 2013-14, we have reduced the cost of public audit in Wales by 14% in real terms<sup>1</sup>. This is represented in **Exhibit 1**. The cumulative savings generated across those years amounts to almost £21m.
- 2 We have achieved this reduction in expenditure despite taking on new audits such as the Welsh Revenue Authority and allocating additional resources to new areas of spend during the period, such as Investigative Studies, growth in our Good Practice Exchange work and our investment in a graduate training scheme.

#### Exhibit 1: the cost of public audit 2013-14 to 2021-22



- 3 Our Estimate for 2021-22 requires that we make additional in-year savings of £400,000 to balance the budget along with £900,000 savings from staff turnover. We set out below the framework we will employ to deliver these savings.

<sup>1</sup> Based on GDP deflators published by ONS, June 2020.

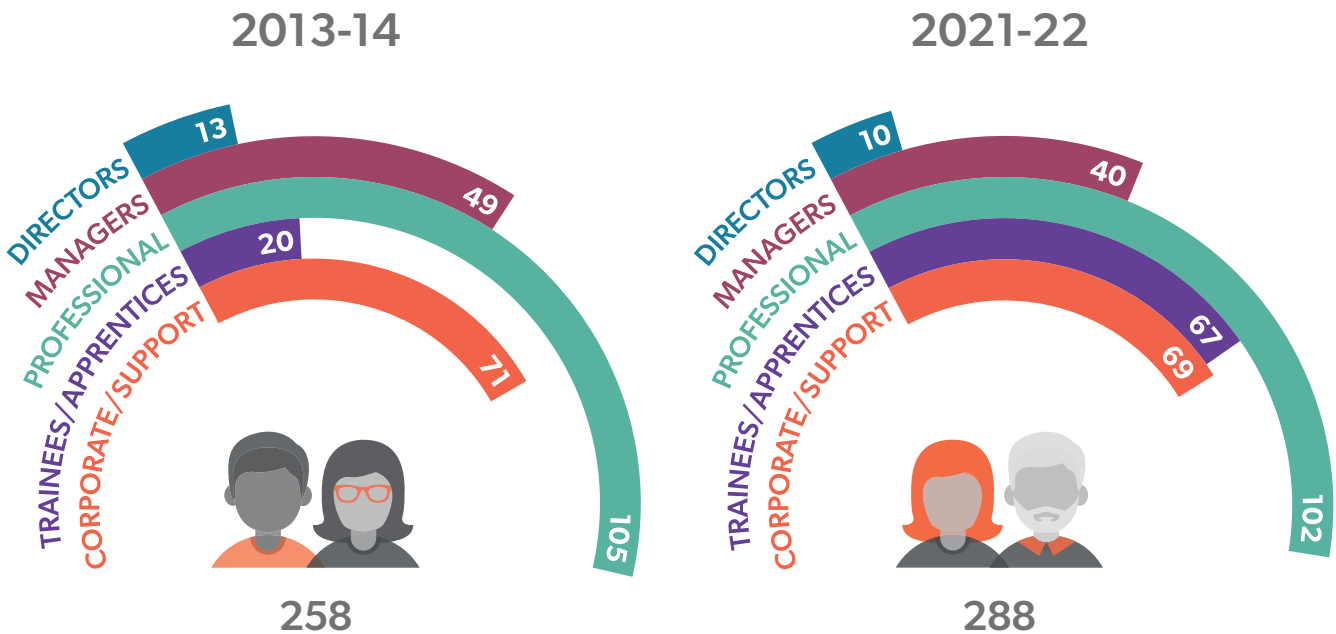
## Our Value for Money (VfM) Framework

### Smarter, Leaner, Better

#### Our people

- 4 Our people at Audit Wales are our biggest investment with staff costs accounting for almost 80% of our planned expenditure in 2021-22.
- 5 The Audit Wales Workforce Strategy sets out how we aim to make Audit Wales a great place to work for our staff and helps us ensure that we get the maximum value for money from our staff resources.
- 6 Since 2013-14 we have changed the shape of our workforce – reducing the number of Directors and managers and significantly increasing the number of graduate trainees and apprentices delivering our audit work, whilst enhancing both its quality and impact. These changes have delivered annual like for like savings of over £1m.

Exhibit 2: Our workforce 2013-14 to 2021-22



## Our places

- 7 After our staff, the biggest area of expenditure for Audit Wales is for accommodation and travel at over £2m annually.
- 8 During 2019-20, RSM UK LLP undertook a VFM review of our travel scheme and made a number of recommendations which are being taken forward by a staff ‘task and finish’ group which is due to report to the Board in March 2021. The Board has set a target of £1m savings over five years from this review.
- 9 We also have a project underway to review our future workplaces requirements – particularly considering the experience of remote working during the COVID-19 pandemic.
- 10 This project is exploring future accommodation needs once existing leases come to an end in 2023. Once again, the Board has set a target of at least £1m savings over a five-year period.



## Our processes

- 11 Our new Digital Strategy is helping us to ensure that we make best use of available technology to allow our staff to work as efficiently as possible.
- 12 Our Data Analytics (DA) team established using WCF funding, and now becoming ‘business as usual’ are developing several new products for use in our audit work. Analytics Assisted Audit (AAA) is our main project for progressing DA in our financial accounts audit work and this suite of data tools has significant potential for generating efficiencies. Alongside other changes to the way that we will work in the future, we estimate that there is potential to reduce the cost of undertaking an audit by 5-10%.



- 13 During 2021-22 we will be replacing our Financial Audit Management System with a SharePoint based system for audit reporting. This will be more closely aligned to the tool used for our Performance Audit work allowing us to move closer towards a common audit platform. This is being developed in response to a shortage of suitable systems in the marketplace and will provide us with a robust system that fully meets our reporting needs, as well as supporting more effective collaboration between audit teams.

### Our procurement

- 14 Cost effective procurement is at the heart of how we operate at Audit Wales.
- 15 During 2020-21 we will have completed the transition of work previously undertaken by private sector firms to all audit work being carried out in-house.
- 16 This change has allowed us to benefit from significant efficiencies of scale and has also allowed us to:
- improve consistency of quality around our audit work;
  - provide better Welsh language provision for our audited bodies; and
  - provide better development opportunities for our staff with a greater breadth of audits to work on.
- 17 We continue to review support service provision to ensure it provides value for money and determine whether services are best provided in-house or on an outsourced basis. We are already achieving annual savings of £75,000 from the outsourcing of payroll and internal audit. We will be further reviewing our payroll provision in 2021-22 to determine if this remains the most cost-effective solution.



## Changes in our call on WCF 2020-21 to 2021-22

### Revenue and capital funding 2021-22

- 18 With this Estimate we will reduce our call on WCF revenue funding in 2021-22 by £120,000 (1.5%) in addition to the bi-annual reduction in funding for the National Fraud Initiative (NFI) as set out in **Exhibit 3**. In real terms this represents a reduction of 4.3% in revenue funding requested from WCF. Further details are set out in **paragraphs 20 to 46**.
- 19 All capital investment is funded from WCF through this Estimate. Our plans for 2021-22 are in line with that indicated in our Estimate for 2020-21. Further details are set out in **paragraphs 47 to 58**.

#### Exhibit 3: Changes in our call on WCF 2020-21 to 2021-22

	Revenue £'000	Capital £'000	Total £'000
2020-21	7,998	230	8,228
Cyclical NFI Funding	(80)	-	(80)
<b>Baseline Estimate 2020-21</b>	<b>7,918</b>	<b>230</b>	<b>8,148</b>
<b>Changes for 2021-22</b>			
Capital programme	-	120	120
Early Closure Project	(120)	-	(120)
<b>Total WCF Funding 2020-21</b>	<b>7,798</b>	<b>350</b>	<b>8,148</b>
<b>Change from baseline</b>	<b>(120)</b>	<b>120</b>	<b>-</b>

### Revenue funding for Audit Wales

- 20 Around 35% of the running costs of Audit Wales are met from WCF, with the balance being funded from the fees charged for our audit work.
- 21 Our Estimate sets out our requirements for funding from both WCF and fees in 2021-22 based on expectations of the work required to meet our Annual Plan commitments.
- 22 A detailed breakdown of our budget for 2021-22 is set out in **Appendix 1**.

## Audit work funded other than from fees: £3.716m



- 23 The Auditor General's programme of national value for money studies is undertaken to provide support to the scrutiny work of the Senedd. These studies are reported to the Senedd's Public Accounts Committee (PAC) and described in our Annual Plan for 2020-21 and Interim Report 2020-21.
- 24 The Public Accounts Committee is one of the key mechanisms for the Senedd to hold to account the organisations which it funds directly or through the Welsh Government. We therefore aim to ensure that the Committee is well-supported by us in its work.
- 25 Our 2020-21 Estimate included provision to switch £180,000 of audit resource from fees to WCF funding to allow us to strengthen our support of scrutiny by undertaking annual pieces of work to explore themes arising from our accounts work. We are using this resource in 2020-21 for the:
- production of web-based infographics and additional presentation of key data arising from the [NHS summarised accounts](#), local government accounts and Welsh Government accounts; and
  - additional commentary for PAC on the Welsh Government's accounts.

## Contribution to running costs: £2.614m



- 26 Funding from WCF is used to meet costs of Audit Wales which are not passed on through fees to audited bodies. These include:
- a contribution to the costs of technical support, quality assurance and compliance, being essential elements of ensuring sound public audit;
  - a contribution to our total travel costs, which we expect to resume albeit to a lesser extent than in the pre-COVID-19 situation, so ensuring that audited bodies are not disadvantaged by their geographical location;
  - investment in staff learning and development;
  - governance costs, such as for the Board, associated support costs and other aspects of ensuring compliance with the Public Audit (Wales) Act 2013; and
  - from 2019-20, increased costs associated with an actuarial review of the Civil Service Pension Scheme.
- 27 Additionally, for 2021-22 we are increasing this element of our funding to allow for a contribution to two projects which have transitioned to business as usual as described below.

## Data analytics

- 28 In June 2020, our Board considered a business case to provide on-going funding for a data analytics function, the costs of which were previously met largely from WCF funding.
- 29 The Board agreed that, from April 2021, this team would form part of Audit Wales core business with costs being met both from a combination of fees and from WCF where its work supports WCF funded activities.



## Cyber security

- 30 Our Estimate for 2020-21 included a budget of £80,000 for enhanced cyber security due to the increasing risk of cyber-attack. This risk remains high and hence we are requesting that this funding be included within the on-going contribution to our running costs.



## Funding for wider public sector benefit: £1.230m



- 31 As in previous years, Audit Wales is seeking funding for initiatives designed to benefit the wider public sector in Wales with the cost being met directly from WCF rather than charges to other public bodies.
- 32 Details of these projects are set out below.

### Pan-Wales financial skills development

- 33 Funding from WCF is used to provide on-going support to our successful programme providing graduate and apprentice opportunities to students from across Wales.
- 34 We currently employ around 60 graduate trainees and apprentices, providing them with world class training opportunities and ensuring a supply of future finance professionals for the Welsh public sector.
- 35 We use the WCF funding to:
  - provide secondment opportunities for our graduate trainees in other Welsh public sector bodies;
  - target our recruitment to improve social diversity and inclusion within our workforce and the wider finance profession in Wales; and
  - support the training costs for our graduate training programme, reducing costs which would otherwise be recovered from fees.

### Good Practice exchange

- 36 We use funding provided by WCF to run our highly-regarded Good Practice programme free of charge to public bodies and the third sector across Wales.
- 37 In response to the COVID-19 pandemic we have targeted resources away from running on-site shared learning events to sharing outputs from our newly established real-time learning project, capturing the good practice of public bodies responding to the pandemic. This is being shared via our website and through social media to maximise the reach of our work.
- 38 We continue to provide online resources, facilitation and webinar learning while our on-site events are suspended.

## National Fraud Initiative

- 39 Since 2015 the Finance Committee has supported the principle of participation in NFI for all public bodies in Wales at no cost to those bodies. Our last biennial report identified potential savings and over-payments of £8m across Wales's public services, increasing cumulative savings to £42.9m since 1996 – a significant return on investment.
- 40 The UK Cabinet Office has introduced an annual charge of £1,200 per participating organisation which has increased our annual costs to £100,000 and to £230,000 in alternate years.
- 41 Without this funding the costs of carrying out this work would instead need to be passed on directly to participating bodies as additional fees, potentially resulting in a significant reduction in the number of bodies who opt to take part.

**Our change programme: £238,000**



- 42 Since 2016 Audit Wales has undertaken several successful transformation projects which have been funded from WCF.
- 43 Some of these projects, including the way that we use data analytics and enhanced cyber security, are now established as 'business as usual' as previously discussed.
- 44 Our project to work with Local Government bodies to implement requirements for the early closure of their accounts will be completed in 2020-21 and hence the £120,000 funding associated with this project will not be required in 2021-22.
- 45 We have recently changed the way that we manage transformational change, with a co-ordinated Change Programme overseen by the senior team acting as a Change Programme Board with responsibility for allocating resources to approved projects. This strengthens our governance arrangements providing a clear route for the prioritisation and approval of change aligned to our strategic ambitions. Ongoing oversight provides delivery assurance and enables early intervention to ensure initiatives deliver their intended outcomes at pace.
- 46 Projects identified as key priorities for this funding in 2021-22 include:
- **Our Future Workplaces:** a project to consider office accommodation needs in a post-COVID-19 world with the aim of reducing accommodation and travel costs once current office leases come to an end in the next few years.
  - **Audit of Accounts 2022:** a project to fundamentally review our approach to audit work to ensure that we have appropriate technology and can meet stringent audit quality requirements.
  - **Our Digital Strategy:** a project to ensure that Audit Wales continues to maximise benefits from new technology to meet our ambition of being a model organisation.

## Capital investment at Audit Wales

- 47 Our capital investment priorities for 2020-21 to 2024-25 are set out in **Exhibit 4**.
- 48 Capital investment is targeted at projects that will deliver future efficiencies and savings; ensuring that our ICT provision makes best use of available technology and that our workplaces meet our changing requirements in a post-COVID-19 world.

### Exhibit 4: capital investment 2020-21 to 2024-25

	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Change programme	110	200	650	400	400
ICT Strategy	120	150	150	150	150
<b>Total</b>	<b>230</b>	<b>350</b>	<b>800</b>	<b>550</b>	<b>550</b>

### Our Change programme

- 49 As referenced above, we have established a strategically managed change programme within Audit Wales to provide effective management of upcoming change projects. Some of these will require capital investment as set out below.

### Future workplaces

- 50 By 2023 the leases on our three office buildings in Cardiff, Swansea and Abergele will be due for renewal or ending. Our capital programme provides an early indication of the estimated costs associated with potential moves and as agreed with Finance Committee in November 2019, we will continue to keep the Committee updated as our work progresses, and we are able to confirm costs.
- 51 There is also a potential requirement for additional non-cash resource funding to allow for the impact of International Financial Reporting Standard 16 (IFRS 16) on any new lease commitments. This cannot currently be estimated.

- 52 It is difficult to estimate costs at this time but changes in the way that we work in a post-COVID-19 world are expected to result in significant savings in accommodation costs for which up-front investment will be required in 2022-23 as set out in **Exhibit 4**.
- 53 The Board has set a target for annual savings of at least £200,000 a year from this investment. Based on initial estimates this means that we would expect to see payback within five years. More detail on our investment proposals will be provided in our Estimate for 2022-23.

### **Audit of Accounts 2022**

- 54 As discussed above, we are developing a replacement for our current audit platform when the contract expires in 2022. An initial option appraisal has recommended that, given the limited number of systems available in the market, an in-house solution be developed based on SharePoint.
- 55 Prototype development is underway with a view to this new system being available for use by October 2022.

### **Other corporate systems**

- 56 The Change programme also includes several pipeline projects targeted at future efficiencies which will require capital investment in the coming years. These include:
- further enhancement of our Performance Audit management system;
  - a resourcing and time recording solution to ensure that we can better match available staff resources with demand; and
  - re-procurement of payroll provision to deliver better integration with our HR system.

### **Our ICT Strategy**

- 57 We have established a rolling programme of PC/IT equipment renewal to ensure business continuity and that equipment remains fit-for-purpose and reliable. We have increased the allocation for this priority from 2021-22 to ensure that we are able to make best use of improvements in technology to support our digital strategy ambitions.
- 58 We also need to invest in equipment that will allow more of our staff to work remotely in a post-COVID-19 world. This investment being closely linked to our Future Workplaces project.



# Income from fees 2021-22

## Fee scheme 2021-22

In previous years we have included a draft fee scheme as an Appendix to our Estimate for consideration by Finance Committee. The legal requirement to consult on fees for Local Government bodies prior to these being included in the Fee Scheme, along with the consequences of the COVID-19 pandemic means that timing has not allowed for this to be included for 2021-22.

Instead, we will consult widely on our proposed fees once this Estimate has been considered by Finance Committee and then lay our Fee Scheme for Finance Committee consideration early in 2021.

## Draft fee rates 2021-22

The fees that we charge are dependent on several factors, including the amount of funding received from WCF.

Subject to the approval of our Estimate for 2021-22, we do not currently expect there to be any increase in our fee rates for that year. We will absorb any pay and price increases through improvements in staff productivity as we limit travel through more remote working.

## Our fee income 2021-22

Our Estimate for 2021-22 shows an increase in fee income of £457,000 as compared to 2020-21. Whilst there are no plans for any like for like increases in fees for audited bodies, this reflects expected increases in the amount of audit work we will be required to deliver in that year both from expected new audited bodies and additional work arising linked to additional COVID-19 related expenditure in 2020-21.



## Potential changes to this budget

### Pay and price inflation

In line with the guidance received from the Minister for Finance and Trefnydd, we have made only minimal provision for pay and price increases in 2021-22.

In the event that inflationary pressure is significantly greater than Office for Budget Responsibility predications, then this position may not be sustainable in terms of our ability to attract and retain staff, and it could become necessary for us to revisit this with the Finance Committee.

### Our fee income

Our Estimate allows for an increase in overall fee income in 2021-22 in line with our expectations that we will need to do additional audit work associated with funding provided for the COVID-19 emergency as well as auditing new bodies due to be established in 2021.

There is significant uncertainty in our estimates for this additional work at this time. If the volume of this work cannot be managed within the proposed Estimate we would need to return to Finance Committee to adjust the amount of accruing resources we are able to utilise.

### New reporting standards

IFRS 16 on accounting for leases is to be introduced from 2020-21.

The impact of accounting for the depreciation and interest associated with the capitalisation of existing leases as compared to the annual running costs of those leases is not significant for Audit Wales due to the short amount of time remaining on our property leases. No adjustment is therefore required to our budget for this change in 2021-22.

There will potentially be a change to our capital expenditure requirement in 2022-23 as shown in **Exhibit 4** if we enter into a new lease arrangement. It is not possible to estimate this impact at present.



# Appendix 1



Budget 2021-22

## Budget 2021-22

	Estimate 2021-22 £'000	Estimate 2020-21 £'000	Increase/ (Reduction) £'000	
<b>Expenses</b>	Staff costs	18,214	17,245	969
	Vacancy management	(911)	(866)	(45)
	Short-term contract staff	311	311	-
	Travel allowance	746	712	34
	Travel & subsistence	257	493	(236)
	Accommodation	964	940	24
	Private sector firms	-	598	(598)
	Irrecoverable VAT	500	500	-
	ICT	602	546	56
	Audit Wales governance	295	300	(5)
	External training	278	289	(11)
	Translation	120	145	(25)
	Legal and professional fees	222	180	42
	Depreciation	280	280	-
	Other supplies and services	731	675	56
	Savings target	(400)	(476)	76
	<b>TOTAL</b>	<b>22,209</b>	<b>21,872</b>	<b>337</b>
	Cyclical NFI costs	50	130	(80)
	<b>Expenses total</b>	<b>22,259</b>	<b>22,002</b>	<b>257</b>
<b>Income</b>	Audit Fees	13,021	12,375	646
	EU Agricultural Funds Audit	650	759	(109)
	Grant certification fees	790	870	(80)
	<b>INCOME TOTAL</b>	<b>14,461</b>	<b>14,004</b>	<b>457</b>
<b>Total to be funded from WCF</b>	<b>7,798</b>	<b>7,998</b>	<b>(200)</b>	



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