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Peredur Owen Griffiths MS  
Chair of the Finance Committee  
Senedd Cymru

Via email

**Reference:** IR25001/AC476/caf

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Dear Peredur

## Finance Committee Annual Scrutiny of the Wales Audit Office

Further to your report – the *Annual scrutiny of the Wales Audit Office and the Auditor General for Wales* – we are writing to set out our responses to the Committee’s recommendations, all of which we accept.

### Annual Report & Accounts 2023-24

**Recommendation 1. The Committee recommends that Audit Wales clarifies whether it continues to reprioritise resources from performance audit teams to support the delivery of its statutory programme in 2024-25.**

To some degree we have always looked to deploy appropriately qualified staff resources from our performance audit and corporate teams to support accounts audit work, to help manage peaks in our accounts audit cycle. This has continued during 2024-25, although we are returning to more of a business-as-usual basis thanks to positive outcomes in recent recruitment exercises.

Our performance audit teams have continued to face some wider resourcing challenges of their own due to impacts from staff turnover and absence. However, as set out against the second of the organisational priorities in our *Interim Report 2024-25*, we have been taking action to address our wider performance audit delivery position.

We also described in the Interim Report the action we are taking to further invest in our trainee and apprenticeship schemes, including to provide better coverage of performance audit work. Our focus during this year and next will be on giving trainees exposure to general learning and development and work shadowing

opportunities to develop their knowledge and understanding of performance audit. By 2026-27, we expect to be able to return to a position where we are able to prioritise more of our trainee resource to support frontline performance audit delivery.

**Recommendation 2. The Committee recommends that Audit Wales outlines the differences in the methodologies used for its externally and internally run stakeholder surveys and provides further information to explain the limitations of the internally-led survey.**

The methodology for both the internally and externally run stakeholder surveys is a short on-line survey. The difference with the externally run survey being that the market research company has the systems and processes in place to send reminders more easily to those who have not submitted a completed survey, enabling a greater response rate. Also, they are commissioned to follow up the on-line survey with a smaller number of qualitative in-depth interviews with a representative sample of stakeholders to explore their views and experiences on the value and impact of our work. Having the survey and interviews conducted independently by a market research contractor provides expertise in the development of the surveys and ensures independence in the analysis of the responses. Importantly it enables respondents to respond anonymously to a third party and so avoids any risk that respondents might feel constrained in providing feedback directly to Audit Wales staff.

To give greater comparability over time, we have decided to collect stakeholder feedback through an external agency in both 2025 and 2026, with no separate internally run exercise. To minimise survey fatigue for participants, we will survey approximately half of our major audited bodies this year and the other half in 2026. In addition to the survey with our key stakeholders we also commission a small number of questions on a Wales Omnibus Survey to gauge the levels of awareness and understanding of our work among the wider public.

**Recommendation 3. The Committee recommends that Audit Wales details any consideration it has given to developing an alternative KPI to measure staff satisfaction.**

We put in place new arrangements to measure staff engagement in 2023. In common with most organisations, we elected to use our overall staff engagement score as our principal KPI relating to organisational culture and staff sentiment. We also publish other staff-related measures such as turnover and sickness rates, as part of our suite of KPIs, to give a balanced picture of the performance of Audit Wales.

Our employee survey is structured around 14 themes. Though these are not used as key performance indicators, significant results from the survey are used and

referenced in our Annual Report and Accounts. We also publish the results for each theme to ensure public transparency on performance at Audit Wales.

**Recommendation 4. The Committee recommends that Audit Wales continues to publish the results of its annual People Survey prior to the Committee's annual scrutiny of the Annual Report and Accounts.**

Agreed.

**Recommendation 5. The Committee recommends that Audit Wales provides details of the four outstanding audits of 2022-23 accounts and the issues that have resulted in the delay.**

Delays in completing these audits have been largely caused by matters arising in relation to accounting for capital reserves and asset valuations. These are taking some time for the audited bodies (Blaenau Gwent, Denbighshire, and Wrexham councils, and Eryri National Park) to resolve. Audit work has been completed on the sections of the accounts that are unaffected by these issues. In some cases, there are also some issues regarding the general quality of the accounts. Since the date of the Committee, the audit of Blaenau Gwent council has now been completed.

**Recommendation 6. The Committee recommends that Audit Wales outlines how it is responding to the drop in performance against its trainee success rate indicator at 30 September 2024.**

The fall in trainee exam success rates at the professional and advanced stage ACA exams is largely as a result of us taking a more lenient approach to exam failures at the certificate (early hurdle) stage during and immediately after the Covid pandemic. We took this approach because of the significant disruption to study patterns during this period which we felt may have impacted exam performance.

It is also a reflection of the smaller number of trainees in the 2021 and 2023 trainee cohorts which means that even a small number of failures has a disproportionate impact on the overall KPI. For example, the 23-24 KPI includes the professional level results for the 2023 cohort where two of only five trainees (40%) failed exams.

In 2024-25, we have been stricter in applying our trainee policy which allows for no more than two examination failures at each level. This will ensure that we retain only those trainees most suited to a career in public finance. We have also seen an increased number of applications for the trainee programme which means that we are recruiting very strong candidates for these roles.

**Recommendation 7. The Committee recommends that Audit Wales details the risks associated with delays in delivering its three-year quality monitoring programme.**

The programme is part of our response to a new quality management standard. Delays in delivery have been brought about by a combination of sickness and resource shortfalls in the very small team responsible for the programme. However the team is now back up to establishment levels, and we are also investing more resource into the team. As at December 2024, we are largely caught up with our plans and the additional resource will help us move forward with our wider quality agenda. As such, we do not think there is a remaining residual risk in this area.

**Recommendation 8. The Committee recommends that Audit Wales reflects on the presentation of its Estimate and considers how it can provide more transparency and clarity around its headline figure.**

We are pleased that the Committee welcomes the significant additional information around our Estimate breakdown included for 2025-26 in response to a similar recommendation on our 2024-25 Estimate. We will consider, though, whether there is further analysis that can be included in future years in particular providing an analysis of the baseline movement in cash in addition to that provided for resource.

**Recommendation 9. The Committee recommends that, in future Estimates, Audit Wales considers how it can provide further information to detail both increases and decreases in budget lines separately, particularly where funding previously used for one purpose is reallocated elsewhere in the budget.**

Appendix 1 to the Estimate details increases and decreases in budget lines in both resource and cash terms. More detail on budget areas is provided within the narrative. In future Estimates we will disclose separately where funding has been moved between lines.

**Recommendation 10. The Committee recommends that Audit Wales explains why the change to movements in working capital is being taken in 2025-26 and provides further information on the circumstances that may result in a supplementary Estimate for the purposes of funding associated with movements in working capital.**

Audit Wales receives most of the cash (c70%) that it requires to operate by means of fees charged to audited bodies which are billed throughout the year. For a normal business at year end, any balance of cash held would be retained to fund expenditure in the new financial year and vice versa. As Audit Wales has to return any cash held at year end to the Welsh Consolidated Fund (WCF), the movement

on working capital (mainly increases and reductions in debtors and creditors) impacts its cash requirements in any one year. The same is true for provisions funded from resource in one year (or over a period of years) which may need to be utilised in the following year hence increasing the demand for cash but not resource funding.

Historically, Audit Wales included a contingency in its Estimates to allow for these movements which (other than for provisions) cannot be estimated at the time that the Estimate is prepared. As this has caused confusion in previous Estimates, the Board made the decision to remove this contingency for 2025-26 and future years. This does mean that in the event that Audit Wales has surplus cash at the year end (from fees charged to audited bodies) which will be returned to WCF, there may be a requirement for a Supplementary Estimate in the following year to recover the cash that has been returned.

**Recommendation 11. The Committee recommends that Audit Wales outlines how it intends to reach its savings target for 2025-26.**

As in previous years, Audit Wales has a robust Financial Sustainability Review (FSR) process which challenges budgets and processes to identify opportunities for savings. This process is already underway for 2025-26 to ensure that the savings needed to balance the budget are identified.

**Recommendation 12. The Committee recommends that Audit Wales:**

- **sets out the factors it considers when formulating pay proposals, including the inflationary measures it considers; and**
- **confirms which inflationary measure it has used to support the proposed 3.5 per cent uplift in 2025-26.**

Audit Wales considers a range of factors when developing its pay strategy, including benchmarking with the public and private sector, and the other UK audit bodies. We also take part in the annual QCG pay survey that benchmarks pay and remuneration for regulated bodies. In addition, we consider correspondence on budgeting from the Minister for Finance and Local Government, inflation trends and projections, recruitment and retention rates, and trends in staff departures to our competitors. We did not use a single inflationary measure to inform the 3.5 per cent uplift, but rather a combination of all of the factors listed.

**Recommendation 13. The Committee recommends that Audit Wales explains why it is considering a different approach to previously proposed National Insurance increases in 2022, with a proportion of that increase funded from the Welsh Consolidated Fund and the balance funded through fees.**

The timing of the increase in National Insurance in 2022 and, importantly, the absence of a clear steer from HMT on how this would be funded for the public sector, meant that we elected to reflect the increase both in our fee rates and our call on WCF for 2023-24. The increase for 2025-26 was announced just before we laid our Estimate in October along with confirmation from HMT that funding would be provided for public sector bodies. As this funding will be for staff budgets only and not for consequential increases in services such as audit fees it feels inappropriate to pass on these costs to audited bodies in the form of increased fees, rather than drawing directly on the WCF to cover costs in directly funded bodies.

**Recommendation 14. The Committee recommends that Audit Wales demonstrates in future Estimates how the one-off £25,000 increase in governance costs in 2025-26 is reducing.**

The one-off increase in governance costs relates to the cost of an external and independent review of the Board's effectiveness which is carried out cyclically every 3 to 5 years in line with good practice. A budget for such a review is therefore to be expected cyclically but not annually as a recurring cost.

**Recommendation 15. The Committee recommends that Audit Wales provides further information on the impact of its Data Analytics function in terms of driving savings and efficiencies.**

We have a Data Vision for Audit Services which states that all Data Analytics projects must seek to achieve one or both of the following intended benefits: time saving for auditors, and/or improved audit quality.

The Data Analytics team has recorded numerous examples of securing time savings as well as equally important improvements in audit quality. The team is saving time by removing the need for repeated data tasks like data cleansing, analysis and visualisation, as well as automating and streamlining of certain audit tasks.

Specific examples of time-saving projects include creating a data tool that has successfully streamlined the delivery of smaller audits. Our main financial audit product - Analytics Assisted Audit (AAA) - is already securing quality improvements and time savings and is due for wider rollout. And our work on community pharmacy data has identified potential savings for the wider public sector.

**Recommendation 16. The Committee recommends that Audit Wales confirms whether the £40,000 additional investment in cyber security represents a one-off or ongoing cost.**

This investment relates to the creation of immutable back-ups i.e. back-ups which cannot be altered, deleted or changed in any way by cyber criminals, and so gives greater defence and resilience, particularly in respect of Ransomware. This investment will be required on an ongoing basis.

**Recommendation 17. The Committee recommends that Audit Wales provides further detail and a breakdown of how specific elements of its capital funding will be spent in 2025-26 and also includes the same level of detail in future Estimates.**

Please see additional breakdown below for 2025-26– this level of detail will be provided in future Estimates.

	2025-26 £'000
Change Programme	180
• Changes to office accommodation	£60,000
• Audit of Accounts Platform development	£50,000
• Corporate information systems updates	£70,000
ICT Strategy – rolling replacement programme for laptops and other ICT equipment.	100
IFR16 re West Wales office.	187
<b>Total</b>	<b>467</b>

**Recommendation 18. The Committee recommends that Audit Wales sets out the anticipated total cost of developing its SharePoint-based audit management platform and the timescales for delivery.**

The £50,000 included in the Estimate is for a ‘proof of concept’ piece of work relating to our audit of accounts audit management platform.

Version 1 of our platform is complete and has been in operation for two audit cycles. This is working very well and will achieve savings of over £0.5 million over its initial 10-year life.

We know that there are many ways in which we can enhance the platform through putting in place further quality safeguards; enhancing the user experience; and to support the longer-term effectiveness and efficiency of our work.

The proof of concept is designed to identify what additional functionality could and should be built into a future version of the platform. The results of the proof-of-concept work will be reflected in a future business case, should we determine that this is the direction we wish to take in the future.

**Recommendation 19. The Committee recommends that Audit Wales provides more detail on the areas of commissioned work it would consider appropriate, as well as the associated opportunities and risks**

As part of our ongoing workforce planning, we are firming up the number of staff that will be required to deliver our work programme post 2026 when we will have completed all of our backlog work. To the extent we may have any surplus capacity available we believe this presents us with an opportunity to broaden our portfolio of work and explore areas of commissioned work.

We are still exploring the areas where there might be potential to expand our commissioned work. These include other parts of the public sector and support for countries and territories with less well-developed public audit systems. We will continue to engage closely with the Finance Committee and the Welsh Government as we explore options, some of which could require legislative change in the medium to longer term.

The vast majority of our work would continue to be on our existing portfolio and delivering the Auditor General's statutory duties will always be the priority. But by exploring other options we believe we would be able to keep audit fees lower; decrease our call on the Welsh public purse; contribute to the wider public good; and provide our staff with valuable development opportunities, which will increase our competitiveness as an employer of choice.

Please do not hesitate to contact us if there is any further clarification we can helpfully provide.

Yours sincerely



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**ADRIAN CROMPTON**  
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