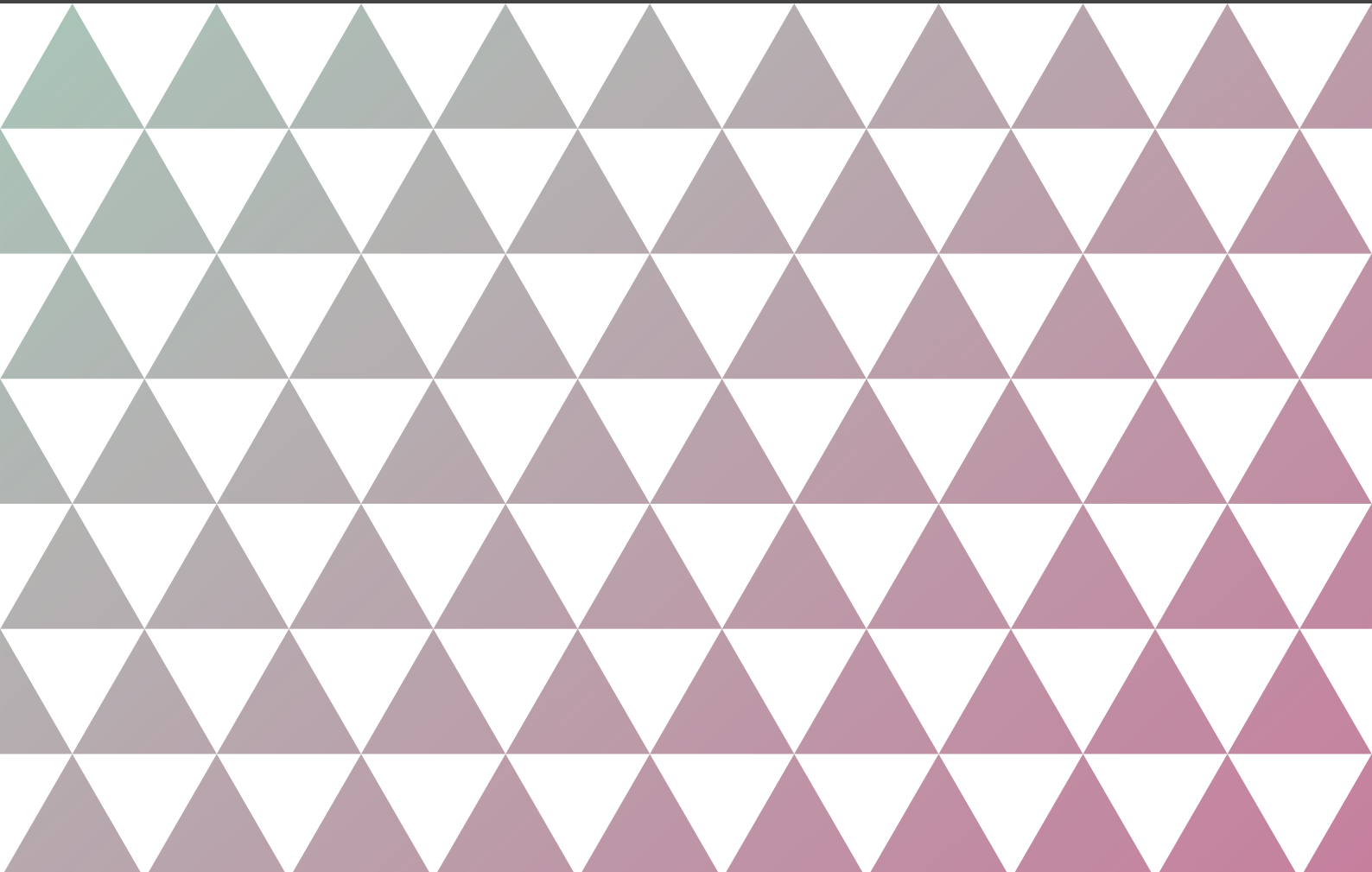


Archwilydd Cyffredinol Cymru
Auditor General for Wales

ANNUAL REPORT AND ACCOUNTS 2016-17



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



The Annual Report for the year ended 31 March 2017 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 2016-17:

- 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 2016-17 have been substantively achieved.

The Accounts for the year ended 31 March 2017 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 welcome correspondence in Welsh and English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

WALES AUDIT OFFICE
24 CATHEDRAL ROAD
CARDIFF
CF11 9LJ

Telephone 02920 320 500
Email info@audit.wales
Website www.audit.wales
Twitter @WalesAudit

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SNAPSHOT OF THE YEAR



April

Held our first all-staff conference since 2015, with a particular focus on transformation of our audit approach.

May

Summarised the common themes that emerged from local reviews of follow-up outpatient appointments, which is an area that presents challenges for all seven health boards.



June

Issued reports on the accounts of each NHS body in Wales, and reported on how effectively they report on their performance to their boards.

July

Established that recent Welsh Government investment has improved coastal protection and delivered some wider benefits.



August

Produced guidance that supports NHS board members in obtaining assurance that their board is effectively meeting demand for orthopaedic services.

September

Concluded that the performance of the Wales and Borders rail franchise has improved since 2006, although comparisons with other UK rail services show a mixed performance.





October

Reported that national, regional and local priorities for community safety differ greatly, which risks confusion and uncoordinated action.

November

Established that Welsh local authorities are not generating as much income from charges for services as their counterparts in England and Scotland.



December

Reported that the National Library has improved important aspects of its governance and management arrangements, but that further work is required to place the Library on a sustainable footing.

January

Highlighted that most local authorities do not have an effective strategic approach for working with the third sector.



February

Concluded that the Welsh Government's funding and oversight arrangements for further education colleges would benefit from a longer-term and more integrated approach.

March

Identified that Wales' local government bodies have improved the quality of their financial statements, but face challenges to produce their accounts earlier.



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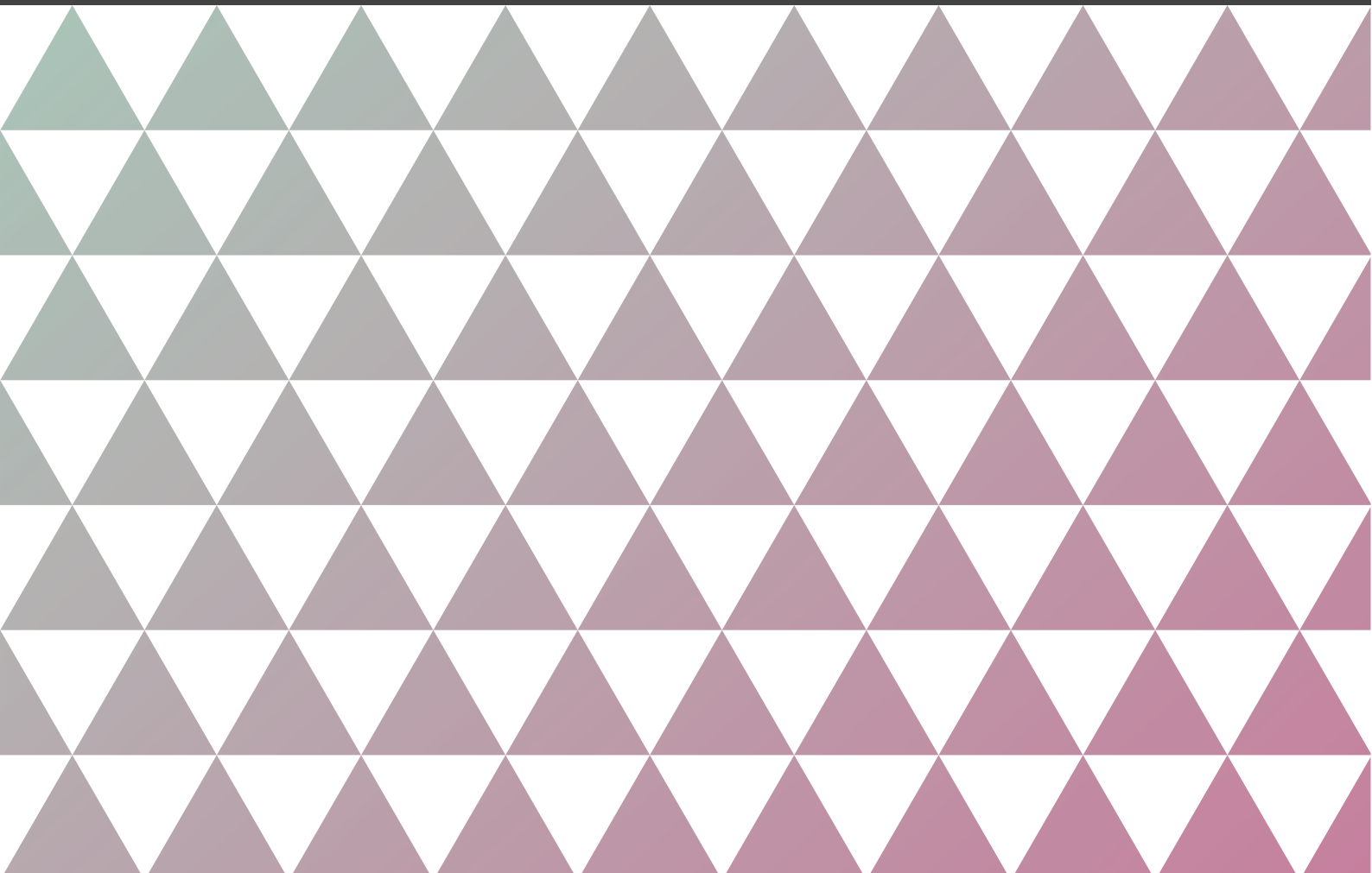
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PERFORMANCE REPORT

A REVIEW OF THE WORK OF THE AUDITOR GENERAL AND
WALES AUDIT OFFICE IN 2016-17, 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
8 June 2017



OVERVIEW

Statement from the Auditor General



Thanks to the professionalism, dedication and hard work of Wales Audit Office staff and contractors, in 2016-17 we successfully delivered the entire programme of audit work laid out in our Plan for the year. We have provided a selection of case studies in this Report to give a flavour of the broad range of work that we have been involved with, and the significant contribution that work has made in terms of holding public bodies to account and improving the governance and delivery of public services in Wales.

We have also made substantial progress on, and in some cases completed the required work for, our longer-term priorities for transforming the way we deliver our audit programme. This included developing and piloting a new outcomes-based approach to grant certification, enhancing the way we use data and technology to support our work, and developing approaches aimed at ensuring we can meet the Government's earlier deadlines for preparing and publishing local government accounts.

Through working in partnership with other publicly funded bodies in Wales, we established the Finance Skills and Development Initiative, which aims to make public finance a more attractive career option for graduates. It was good to see our work here achieving national recognition when the Initiative was given one of the UK Public Finance Innovation Awards 2017.

We also consulted towards the end of the year our key stakeholders on an analysis of our future operating environment and our proposals for how we should respond. We have used their feedback in finalising our strategy for the period 2017-2020. A key element here will be piloting with our audited bodies a suitable approach to effectively deliver my duties under the Well-being of Future Generations (Wales) Act 2015.

Huw Vaughan Thomas
Auditor General for Wales

Statement from the Chair



2016-17 was an excellent year in terms of organisational performance at the Wales Audit Office.

We achieved, and in many cases exceeded, our targets for two thirds of our 35 key performance indicators, and were close to achieving our targets for another six indicators. Our performance against the remaining handful of important indicators, including a few that relate specifically to our ongoing cultural development work, will be a focus for 2017-18. Where we comfortably achieved our targets, we have set ourselves more challenging goals for the coming year.

During the year, strategic risks were well managed, and an independent evaluation concluded that we have in place an effective Board which is well resourced and exercises good oversight of both the strategic and operational aspects of the Wales Audit Office.

Looking forward, the Board's primary challenge is now to provide advice and oversight on strategic changes to drive further improvement in organisational performance and impact, particularly in light of upcoming changes to our operating environment.

The Board also recognises the potential risks to its effectiveness as the current terms of appointment of most non-executive members and its elected employee members come to an end during 2017 and 2018. We are working hard to ensure that the significant momentum gained by the Board since its establishment in 2013 is not lost, and that suitable arrangements are in place to ensure an effective transition.

As outlined in our Annual Plan for 2017-18, we are now in the process of finalising proposals for simplifying and improving the cost effectiveness of the funding arrangements of the Wales Audit Office. We will shortly be consulting with stakeholders on our draft proposals and will present the outcomes of that consultation to the Finance Committee.

Isobel Garner

Chair, on behalf of the Wales Audit Office Board

Who we are and how we operate

The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector.

The Auditor General is responsible for the audit of the majority of public money spent in Wales, including the funds that are voted on 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 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 employed 253 staff as of 31 March 2017.

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.

Our Values



What we do

PUBLIC SECTOR AUDIT INVOLVES:

- ▶ PROVIDING AN OPINION ON THE ACCOUNTS
- ▶ CONSIDERING WHETHER PUBLIC MONEY IS BEING USED FOR APPROVED PURPOSES (REGULARITY)
- ▶ CONSIDERING HOW PUBLIC BUSINESS IS BEING CONDUCTED (PROPRIETY)
- ▶ EXAMINING WHETHER PROPER ARRANGEMENTS ARE IN PLACE TO SECURE 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. [Our Annual Plan for 2017-18](#) provides more information on how we follow the public pound in Wales.

We undertake our work in accordance with the Auditor General's [Code of Audit Practice](#). The Code prescribes the way in which the Auditor General's audit and certain other functions are to be carried out, and embodies what appears to the Auditor General to be best professional practice.

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 aim and objectives

Our aim is that the people of Wales and National Assembly know whether public resources are being managed wisely.

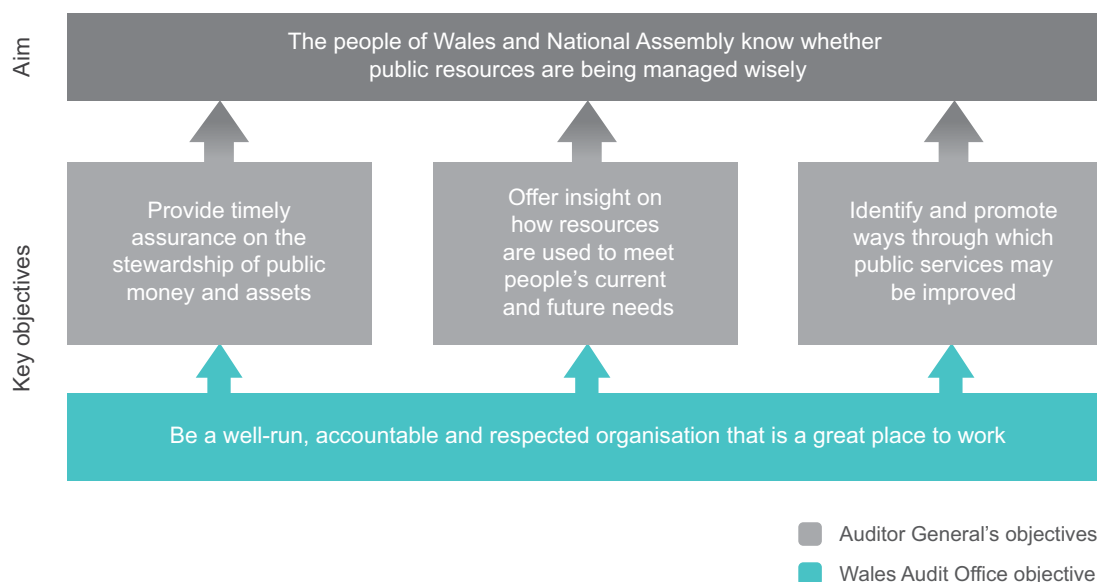
Our first three objectives focus on what we consider to be the threefold purpose of audit – providing assurance, offering insight and promoting improvement.

Our fourth 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, accountable and respected organisation that delivers value for money and provides a stimulating and rewarding environment in which to work.

The Auditor General and the Wales Audit Office jointly prepared and laid before the Assembly an [Annual Plan for the year ended 31 March 2017](#).

The Plan set out, for 2016-17, 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.

Making public money count



Key issues and risks that we face

As outlined in greater detail in our [Annual Plan for 2017-18](#), we consider the following factors to be those that will have the greatest influence over the way we deliver our work and achieve our aim and objectives over the next three years:

- We remain 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 2017-18 and for the three-year period 2017-2020 is underpinned by five high-level strategic themes.

Report authoritatively on whether public bodies are acting in accordance with the sustainable development principle	
Support strong public sector financial management at a time of austerity	
Make more effective use of data and embrace cutting edge technology	
Streamline our business processes and strengthen our governance arrangements	
Review and adapt our audit approach	

An account of our risk management in 2016-17, alongside a description of the principal risks and uncertainties we face, is provided in the [Governance Statement](#).

Performance indicators

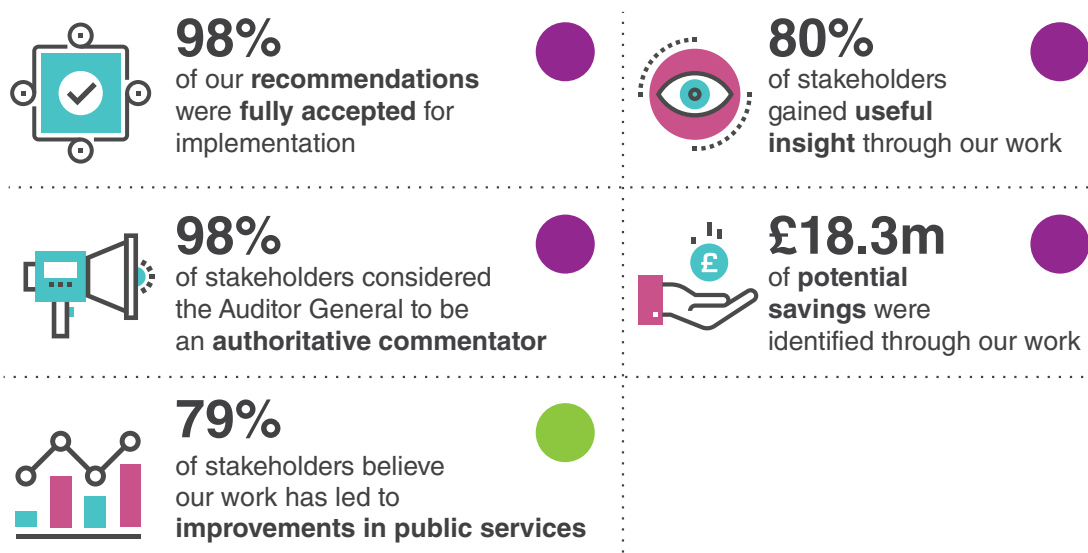
A framework of key performance indicators, centred on seven themes and questions about our activities, was included in our [Annual Plan for 2016-17](#). A suite of targets was also developed with reference to levels of performance at the end of 2015-16 and appropriate benchmarks.

Over the course of 2016-17 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 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 2016-17 we achieved our targets for 24 of the 35 performance indicators, and were close to achieving our targets for another five indicators. Our performance against the remaining six indicators will be a particular focus for improvement work in 2017-18.

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**



20

good practice products were delivered



18

National reports were published



Leadership

Are our governance and leadership arrangements operating effectively?



97%

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



99%

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



68%

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



80%

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



69%

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



Achieved our target



Close to achieving our target



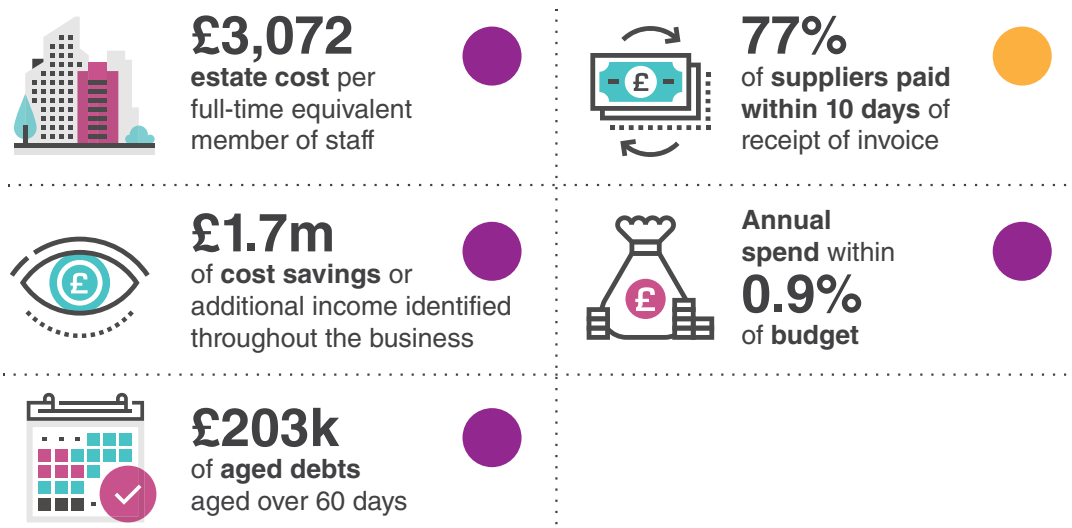
Improvement required



Significant improvement required

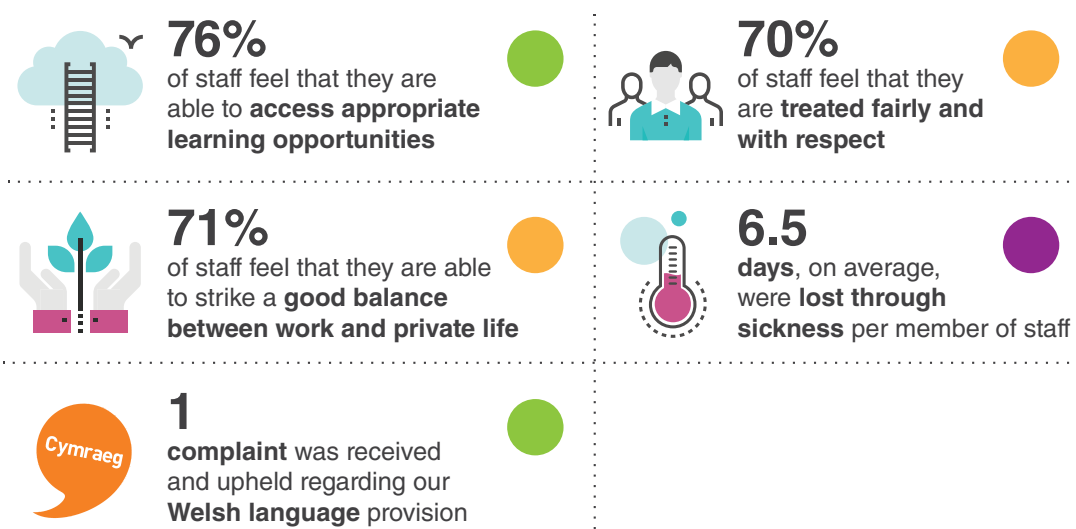
Financial

How well are we managing our finances and assets?



Social

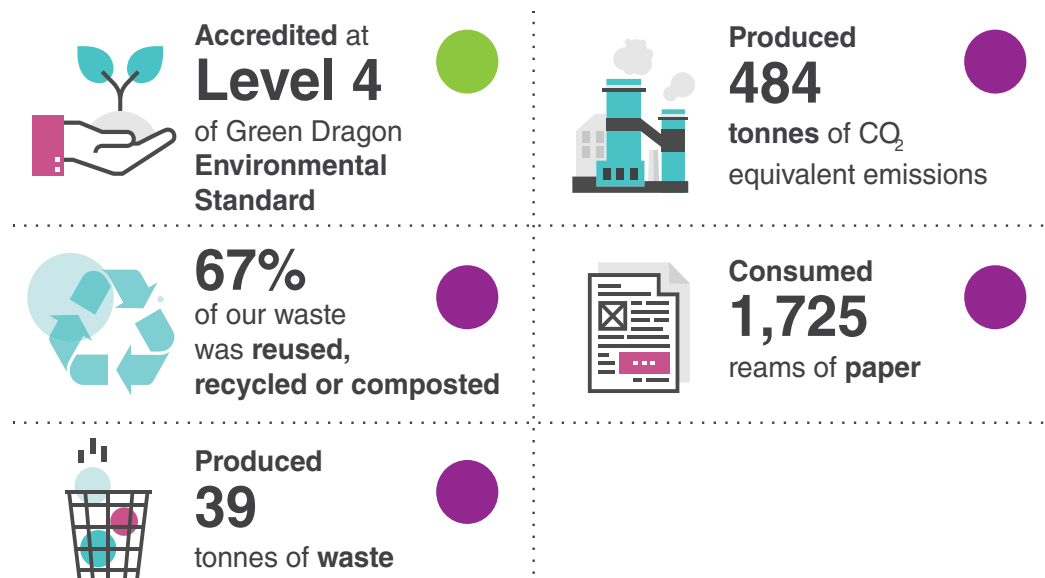
How well are we promoting and supporting equality, well-being and learning?



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

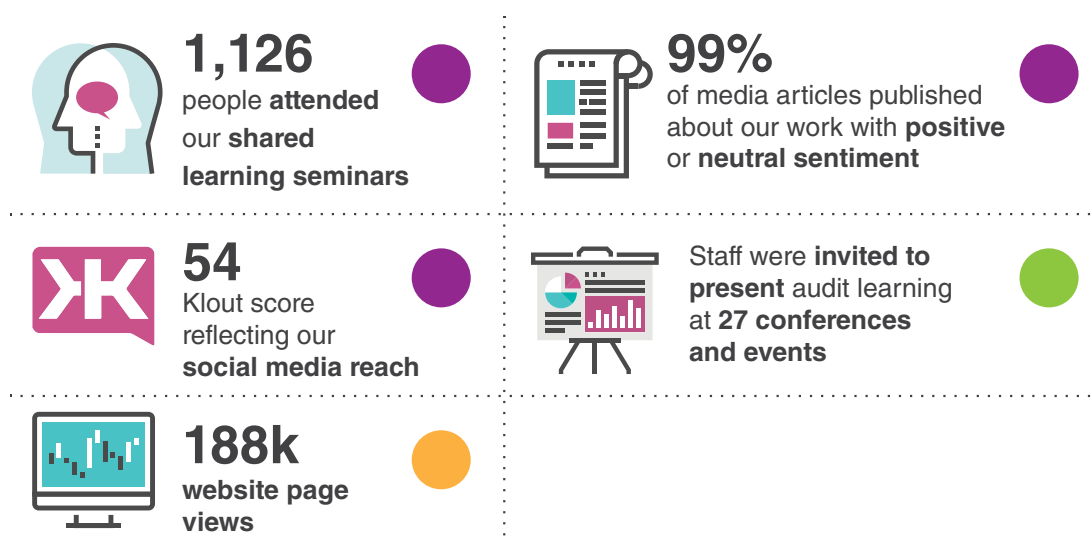
Environmental

How well are we managing our impact on the environment?



Communication

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



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

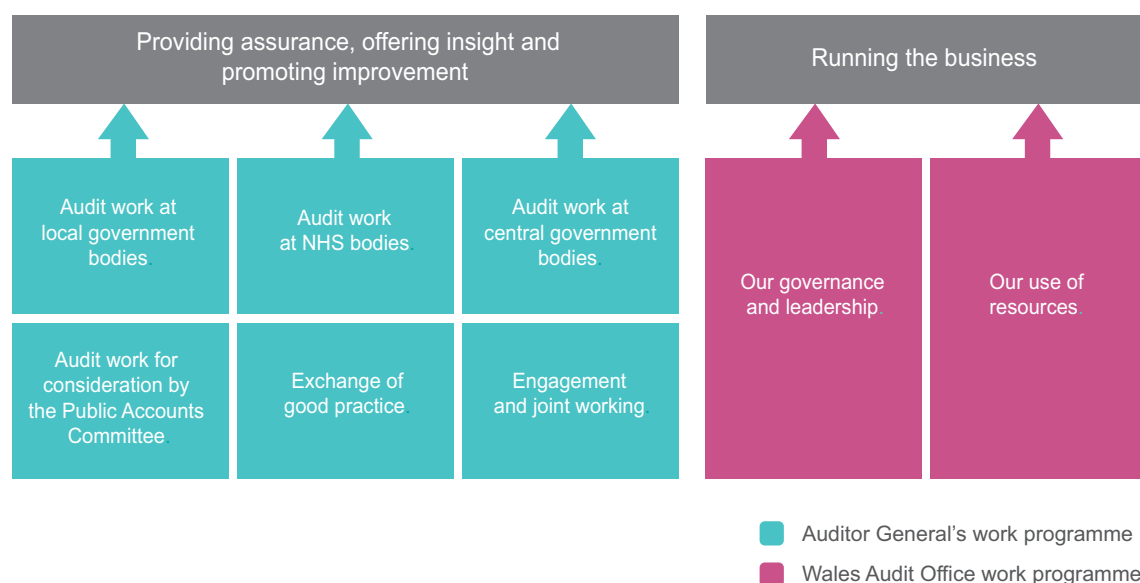
PERFORMANCE ANALYSIS

In this section we provide an assessment of the extent to which the programmes of work and three-year priorities set out in our [2016-17 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 2016-17; and
- [Appendix 2](#), which provides further 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 2016-17, we successfully delivered 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

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

Delivered annual
improvement
assessments at all
28
improvement
authorities

Developed and
piloted a
new
outcomes-based
approach to
grant certification

Certified 21
grant schemes
worth approaching
£3
billion

All
of our three-year
priorities for local
government work
are either
complete or
on track

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 2016-17, 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.

Case study: Earlier closure of accounts at Wrexham and Pembrokeshire Councils

Local government bodies are currently required to prepare their annual accounts by the end of June and publish audited versions by the end of September each year. By 2020-21 these deadlines will be brought forward by two months to May and July respectively. Ensuring a successful transition to this revised timetable presents significant challenges for both auditors and local government bodies.

An initial pilot of approaches aimed at ensuring we can meet the earlier deadlines was carried out at Torfaen County Borough Council in 2015-16. In 2016-17, additional pilots were carried out at Wrexham County Borough Council and Pembrokeshire County Council, with our financial audit teams in North Wales and West Wales working in conjunction with officers from both councils. Overall, the pilots proved to be successful and both sets of 2015-16 accounts (alongside those of Torfaen Council) were prepared and audited by the end of July 2016, some eight weeks earlier than the previous year.

The key to the success of the pilots was robust planning and open and constructive dialogue between the audit and finance teams. Through applying a 'no-surprises' approach, key milestones were identified, monitored and adhered to, and any emerging problems were resolved at the earliest opportunity. The role of the respective Audit Committees was also critical in ensuring commitment across the Council and holding officers and auditors to account.

Earlier closing is a learning curve for us all. Our local audit teams will continue to work with the three pilot Councils in 2017-18 to make further improvements to the accounts preparation and audit processes. With a view to making preparations for earlier closure at other Councils, the audit teams and finance officers involved in the pilot also shared their experiences with officers from other councils at [learning seminars held in Cardiff and Llanrwst in November 2016](#).





Audit work at NHS bodies

Issued reports on
the accounts of all

10

local health
boards and
NHS trusts

Delivered annual
**structured
assessments**
and local
performance
audit work

Highlighted scope
to secure over

**£8
million**

in savings from
better prescribing
practices

Identified
1,100 hours
of lost theatre
time at just two
health boards
in a two-month
period

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

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 2016-17, the Auditor General provided his audit opinions on the 2015-16 accounts of each NHS body, and reported publicly on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources. 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 on the studies listed in [Appendix 1](#).

Case study: Supporting efficiency and quality improvements in NHS Wales

In 2016, the Auditor General published two reports summarising the outcomes from local audit work undertaken at all health boards. Both reports have served to act as a stimulus for important national action aimed at securing better efficiency, effectiveness and economy in the way the NHS uses its resources.

Through the report [Operating Theatres: A summary of Local Audit Findings](#), we recognised the good work that has been undertaken on surgical safety within operating theatres, but highlighted that there had been insufficient focus on efficiency and productivity in recent years. Our audit work showed that the scale of potential efficiency savings is significant. A two-month snapshot audit at just two health boards identified 1,100 hours of lost theatre time, equating to just under £1 million of NHS resource.

[Managing Medicines in Primary and Secondary Care](#), was published in December 2016, and pointed to the need for medicines management to have a higher profile within NHS bodies in Wales. We identified scope to secure over £8 million in savings from better prescribing practices for a specific sample of drugs, and to improve a number of quality and safety aspects of medicines management.

The recommendations from our audit work, along with other sources of intelligence, are being used by the NHS Wales Efficiency, Healthcare Value and Improvement Group to drive forward a number of actions to secure more optimal use of medicines within the NHS in Wales and to take forward national action on operating theatres.

The Welsh Government also convened a national Theatres Efficiency and Quality event in October 2016, bringing together all relevant parties to share good practice and identify key improvement actions. We presented our audit findings at the event to help frame the day's discussion.





Audit work at central government bodies

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

Carried out
a review of
governance
arrangements at
the National
Library of Wales

Delivered training
to accounting
officers and
senior officials
across the
Welsh Government

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

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 2016-17, the Auditor General provided an annual opinion on the 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.

Case study: Preparations for the implementation of fiscal devolution in Wales

From 1 April 2018, for the first time in over 800 years, Wales will be in charge of raising an element of its own tax revenues.

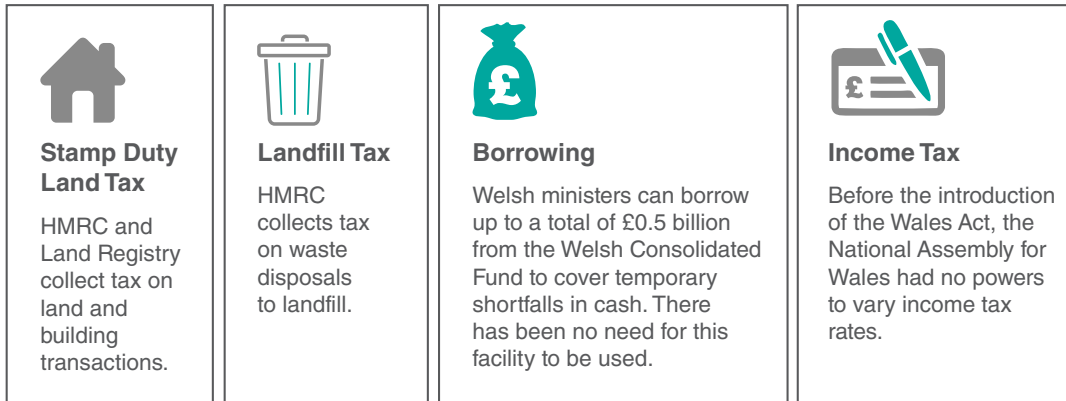
On 1 December 2016, we published a [Report](#) which identified the main focuses and challenges for the Welsh Government in 2017 in preparing to take on its new fiscal responsibilities:

- Agreeing the fiscal and legislative frameworks with key stakeholders including the UK Government;
- Getting detailed plans for establishing the Welsh Revenue Authority (WRA) in place and ensuring any amendments to the legislative framework are reflected in those detailed plans; and
- Ensuring the WRA is established on time, within cost and with the right skilled people in place.

We reported that the Welsh Government is making good progress towards making the necessary arrangements for fiscal devolution, including for establishing the WRA before the April 2018 commencement date. However, we also outlined that significant challenges and risks remain in relation to getting the detailed plans in place and delivering key projects, which will need very careful management over the coming months.

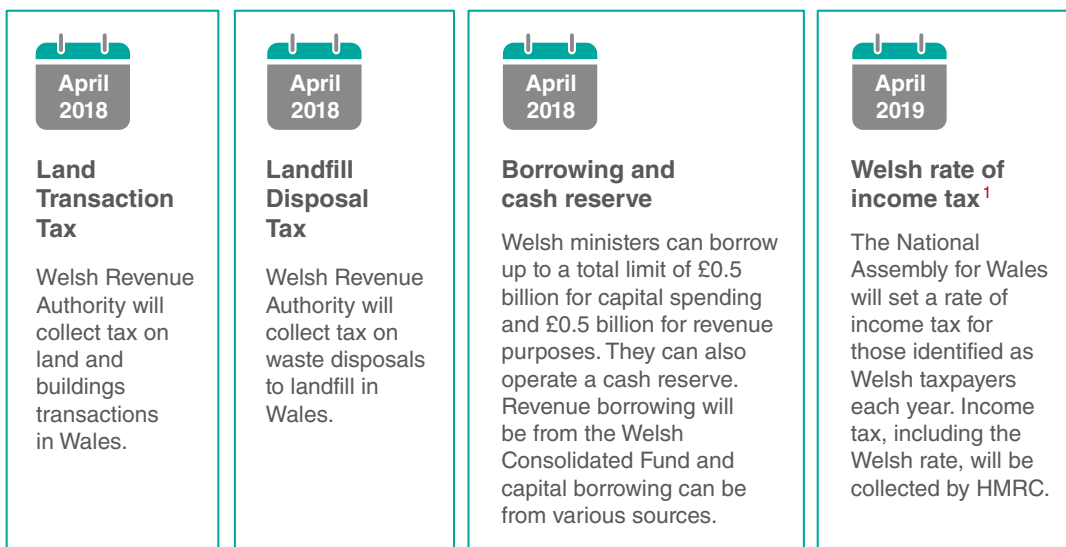
The Auditor General will continue to review the fiscal devolution agenda throughout 2017, and intends to publish further reports on the Welsh Government's progress.

Before



Wales Act 2014

After

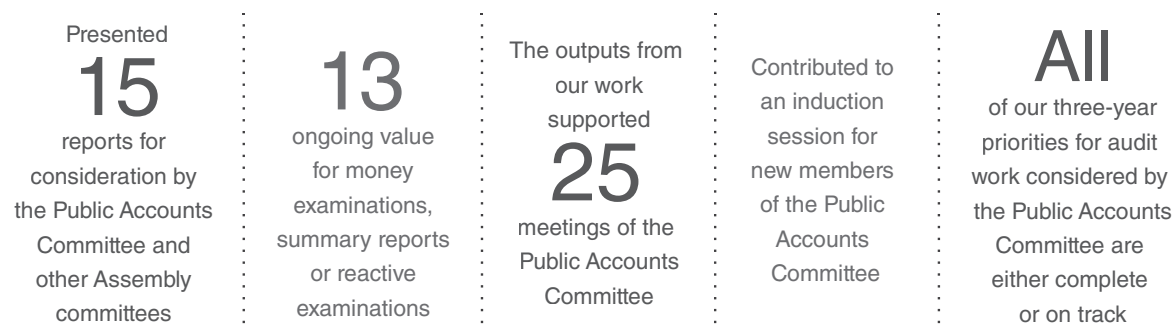


Note

¹ Under the Wales Act 2017, the partial devolution of income tax powers to Wales may take place as early as April 2019.



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 2016-17, which have been delivered consistent 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 2016-17 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 2016-17.

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.

Case study: Review of the Welsh Government's funding of Kancoat Ltd

The Auditor General's review of the Welsh Government's funding of Kancoat Ltd, was the first to be undertaken by our newly established Investigative Studies Team.

In [our Report](#), published in July 2016, we provided detail on how the Welsh Government had provided Kancoat with financial support totalling £3.4 million to purchase and operate a metal coil coating production line near Swansea, with a view to creating growth and sustainable jobs.

Despite the support package provided to Kancoat, its business venture failed and the company went into administration in September 2014, owing the Welsh Government £2.6 million. We highlighted in our report that the actual cost per job created or safeguarded by Kancoat was nearly three times higher than the Welsh Government's original expectation. Only 12 jobs were created during the short life of the Company.

On hearing the evidence from our review and its subsequent inquiry, the Public Accounts Committee had serious concerns about whether the initial decision to invest in Kancoat should have been made, given the substantial uncertainties around the company and the commercial viability of the project proposed. The Committee also expressed some broader concerns about the actions taken by the Welsh Government to support Welsh business.

Consequently, the Committee has welcomed the Auditor General's decision to commence a broader value-for-money examination of the Welsh Government's overall approach to business finance.





Exchange of good practice

Hosted
20
shared learning
seminars and
webinars

1,126
people attended
our seminars
and webinars

93%
of attendees
rated our
seminars and
webinars 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

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 2016-17, 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.

Case study: Behaviour change session – Swansea's Got Jargon Busters

During 2016-17, our Good Practice Team worked with a number of partners to run a series of behaviour change festivals at Bangor, Swansea and Aberystwyth Universities. The aim of the festivals was to share knowledge among public service transformation teams about a range of behaviour change activities happening throughout the Welsh public sector, and to build links between the theory and practical application of behaviour change science.

One of the most impactful sessions delivered was the 'Swansea's Got Jargon Busters' panel game held during the Swansea Festival in September 2016. Barod, the community interest company who delivered the session, specialise in changing behaviours around how people who deliver public services communicate with the public and the people who use those services.

The Game involved participants presenting on a service transformation-related theme for two minutes in front of a panel of Barod staff, half of whom were people with learning disabilities. If the presenter used jargon during the two minutes they were 'buzzed'. Three buzzes and they were out of the game.

The Game had a noticeable and immediate effect on people's behaviour. Not only were participants proud to wear a 'Jargon Buster' badge (if successful), but the nature of conversations markedly changed during the rest of the festival. People were far more aware of the language they chose to use, conscious of the impact it might have on those listening, and were prepared to challenge the behaviour of others. When providing feedback, one of the delegates commented: 'This has changed what I do – much more than a training course on 'better communication' or a guidance document'.

In the spirit of 'be the change you want to see', our Good Practice Team have subsequently been applying the lessons learnt from the behaviour change session in their day-to-day activities, and encouraging others to do the same using our Good Practice blog and other methods of communication.



Engagement and joint working

Facilitated the detection and prevention of fraud and error worth more than
£4.4 million

Active member of
10
key external working groups and an observer on seven 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

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.

Case study: Regional education consortia: working with Estyn

During the spring and summer of 2016, a team of our performance auditors worked alongside officers from Her Majesty's Inspectorate for Education and Training in Wales (Estyn) on the Estyn-led inspections of the four regional education consortia in Wales. The consortia provide school improvement services for councils and play an increasingly important role in the education system in Wales.

Our staff focused primarily on how the consortia manage their resources, and identified areas for improvement in terms of their assessment of value for money and medium-term financial planning.

Our participation in the 2016 inspections built on our previous joint working with Estyn to review the early development of the regional education consortia, as reported in June 2015. We used the evidence gathered through the 2016 inspections and some additional fieldwork to publish a [Memorandum for the Public Accounts Committee](#) in November 2016. We reported that reasonable progress had been made by the Welsh Government, local authorities and regional education consortia in implementing the recommendations made in our 2015 report, although the consortia were still at different stages of development.

In September 2016, the Welsh Government hosted an event at which staff from both Estyn and the Wales Audit Office presented an overview of their key findings. At the end of the event, the four consortia presented a draft action plan that sought to bring together a national approach to addressing some of the key issues.

Drawing on our memorandum and evidence from the four consortia and Estyn, the Public Accounts Committee identified wider lessons for regional working as part of its response to the Welsh Government's January 2017 White Paper on Reforming Local Government.

Our governance and leadership

The Public Audit (Wales) Act 2013 prescribes the framework for our governance arrangements, most notably in relation to the composition and functions of the Wales Audit Office Board, and the relationship between the Wales Audit Office and the Auditor General.

Our Board combines the knowledge and skills of non-executive, executive and elected employee members to provide dimensions of insight and experience that are helping to shape our strategic direction. 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 2016-17, is provided in the [Governance Statement](#).

Further information on membership of the Board and the Management Committee during 2016-17 is provided in the [Directors' Report](#).

During the year, the Board approved, amongst other business, the annual report and accounts for 2015-16, an estimate of income and expenses for 2017-18, an interim report on progress made against the 2016-17 annual plan, a fee scheme for 2017 and an annual plan for 2017-18 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.

On 20 April 2017, the Wales Audit Office was commended as a finalist in the Achievement in Financial Reporting and Accountability category at the [Public Finance Innovation Awards 2017](#), which showcase and reward achievements within public finance and governance.



Our use of resources

We have been working hard to embed the principle of sustainable development¹ in the way we run our business, and in the way we resource the Auditor General's audit work, for a number of years. In this section we provide some high-level commentary on how we have managed our use of resources in 2016-17.

While neither the Auditor General nor the Wales Audit Office are listed public bodies for the purposes of the Well-being of Future Generations (Wales) Act 2015, we nonetheless seek to maximise our contribution to achieving the seven Welsh well-being goals:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities
- A Wales of vibrant culture and thriving Welsh language
- A globally responsible Wales

In addition, we have indicated in this section (through use of the relevant icons) where our performance in 2016-17 contributed to one or more of the 17 [United Nations Sustainable Development Goals](#)².



The Wales Audit Office supports the Sustainable Development Goals

¹ Defined in the Well-being of Future Generations (Wales) Act 2015 as acting 'in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs'.

² In accordance with the [HM Treasury Public sector annual reports: sustainability reporting guidance 2016-17](#).

Financial management and efficiencies

As set out in our [Estimate for 2016-17](#), robust financial management and cost efficiency remains a priority at the Wales Audit Office.

In 2016-17, we limited our net operating expenditure to within £192,000 of that allowed for in our Estimate, and identified further savings on staffing and other costs which allowed us to fund a voluntary exit scheme which will deliver annual savings of £400,000 in the future.

In line with our Estimate, we also invested £222,000 of capital funding in four areas which will deliver further efficiency savings in coming years:

- In June 2016, we invested £65,000 to move our office base in North Wales from Ewloe in the East to a more central location in Abergele. Alongside savings on lease and energy costs we also anticipate savings in staff travel costs.
- We continue to invest in videoconferencing facilities at each of our offices to reduce the requirement for staff to travel to attend meetings. In 2016-17, we invested £34,000 in additional equipment due to the increasing demand for this facility.
- Following on from the successful implementation of our audit management software for financial audit work in 2015-16, a project to digitalise audit management in our performance audit is underway. To facilitate this, we invested £25,000 in additional licences for the MK Insight software in the year.
- The balance of our capital investment, some £98,000, was invested in new IT equipment including renewed network infrastructure and the purchase of new 'hybrid' laptops which will enable our audit staff to work more efficiently and will continue to reduce our use of paper.

Quality of our work

The quality of our work is of paramount importance to us and our stakeholders. The [Code of Audit Practice](#), which is reviewed on an annual basis, 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 2016](#), 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 2016-17 will be published later in 2017.

Our people

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 2016-17 financial year, 24 trainees successfully moved on to the next stages of their studies, collectively achieving a 91.6% first-time pass rate for examinations with the Institute of Chartered Accountants in England and Wales (ICAEW).

In 2016-17, working in partnership with other publicly funded bodies in Wales, we also established the Finance Skills and Development Initiative, which aims to make public finance a more attractive career option for graduates and to raise the standard of financial management in the country. Under the initiative, partner organisations including the Wales Audit Office offer secondment opportunities for finance trainees to spend periods of time at other publicly funded bodies. In 2016-17, Wales Audit Office trainees completed placements at local health boards in North and South Wales, the Welsh Government, a city council and a police authority.

On 20 April 2017, the Initiative was celebrated as the overall winner in the Finance Training and Development Initiative category at the [Public Finance Innovation Awards 2017](#).



JUDGES' COMMENTS:

"THIS INNOVATIVE MODEL OF FINANCE TRAINING AND DEVELOPMENT IS AN EXCELLENT REFLECTION OF THE IMPACT OF ITS EXTERNAL ALLIANCES AND COLLABORATIVE WORKING. A TRULY ORIGINAL, BOTTOM-UP, VOLUNTEER-LED INITIATIVE."

We continue to invest more broadly in staff learning and development to support our staff in the delivery of their work. In 2016-17, the average amount of time spent per employee on a range of learning and development activities was 9.1 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. 98% of staff felt that the courses they attended in 2016-17 were effective in helping them meet their objectives.



Digital transformation

A project was commenced in September 2016, aimed at transforming the way we use data and technology as part of our audit work.

A team of six junior staff, who were representative of all areas of the business, were given time and space to work towards achieving the aspirational outcome of 'Cutting edge audit through cutting edge technology and cutting edge people'.

The team developed and implemented 14 small-scale prototype changes to the way we use data and technology, which have already led to some improvements to the efficiency and quality of our work, alongside making aspects of day-to-day life easier for staff.

The fast-moving project ended in June 2017 when a final report and recommendations were made to the Wales Audit Office Board. The recommendations were aimed at sustaining the project's successes and moving the Wales Audit Office towards long-term and sustainable digital transformation.

In 2017-18, a similar project will be commenced aimed at improving the way we communicate with the public and other stakeholders.

Correspondence handling and whistleblowing (external)

We regularly receive correspondence from the public, their local and national elected representatives and others that raises potential concerns about the stewardship of public money and assets. The Auditor General is also a 'prescribed person' under the Public Interest Disclosure Act for raising whistleblowing 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.

When dealing with correspondence and communications received via our external whistleblowing arrangements, we aim to:

- respond to public concern promptly, and in a fair, objective and professional manner;
- appreciate the importance of the issues to those who have taken the time to highlight them;
- issue audit reports where we consider these are merited; and
- make sure that we do not use public money looking at issues that are not relevant to our audit work³, or spend too much time on minor issues.

In 2016-17, we received 96 items of correspondence that raised potential concerns about the stewardship of public money and assets. In 82% of these cases, a full or interim response was issued within 30 working days of receipt of the correspondence.

We also received a total of 33 communications via our external whistleblowing arrangements. Of these, 17 fell within the Auditor General's remit.

³ 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 responsibilities on to the Auditor General).

Promoting use of the Welsh language

The Auditor General and Wales Audit Office take pride in providing a bilingual service. Our public documents are available in both English and Welsh, we have a fully bilingual website, and throughout 2016-17 we communicated with the public, audited bodies and the media in both languages.

We are committed to implementing and maintaining the new Welsh Language Standards. Our [Compliance Notices](#) can be found on the Welsh Language Commissioner's website.

Our final [Report on the implementation of our Welsh Language Scheme](#) is also available on our website. The Scheme formed the basis of our approach to the Welsh language prior to the introduction of the Standards.

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.

In a survey of Wales Audit Office staff undertaken during November and December 2016, 71% of staff that took part in the survey felt that they were able to strike a good balance between their work and private life; a lower figure than our target of at least 80%, but higher than the 2016 [Civil Service People Survey benchmark score](#) of 67%. Alongside this area being a focus for improvement work in 2017-18, it is also our intention in our next staff survey to use the same framework of questions as will be used in the 2017 Civil Service People Survey, thereby widening the range of wellbeing-related data that we gather and enhancing our ability to draw benchmarking comparisons.

We closely monitor rates of sickness absence and have in place a range of mechanisms for supporting successful return to work. An average of 6.5 days per employee were lost to sickness absence during the reporting year ending 31 March 2017 (compared to 7.3 days per employee for the previous year).



3 GOOD HEALTH AND WELL-BEING



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 Report on progress made towards delivering our equality objectives in 2015-16](#) is available on our website. Our report for 2016-17 will be published in summer 2017.



5 GENDER EQUALITY



10 REDUCED INEQUALITIES



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, staff chose the charity CDH UK as the focus for their fundraising activities in 2016-17. Over the course of the year and in their own time, our staff held a number of fundraising events:

- Wales Audit Office colleagues donned their cycling jerseys and tackled the 87-mile Wales Velothon circuit for the second year running;
- Another group of staff achieved the impressive feat of scaling Ben Nevis;
- A number of other events were held, including regular cake sales and raffles, and a Six Nations Championship scores and results predictor competition.

In total, staff raised around £3,500 for the charity. For 2017-18, the staff-chosen focus for fundraising activities will be charities in the mental health field.



Environmental stewardship⁴



We were re-accredited for 2016-17 at Level 4 (the second highest level) of the Green Dragon Environmental Standard, demonstrating our ongoing commitment to effective environmental management. Although we did not quite reach our target of achieving Level 5 (the highest level) in 2016-17, we expect to do so in early 2017-18.

As part of this commitment, we commenced carbon offsetting to support the global reduction of greenhouse gas emissions. In January 2017, we offset⁵ 270 tonnes of carbon dioxide equivalent emissions (tCO₂e) resulting from our business travel, at a cost of £945, by supporting the following projects:

- [Planting 162 Trees in Wales](#);
- [Borehole Rehabilitation Project in Uganda](#) (108 tCO₂e); and
- [Florestal Santa Maria Reducing Deforestation in Brazil](#) (162 tCO₂e);

Sustainability considerations are also embedded in our procurement practices, where we apply the UK Government's [Flexible Framework](#) and [Buying Standards](#), including through:

- providing training for procurement staff in sustainable procurement principles;
- undertaking sustainability risk assessments for higher value procurement and considering whole life costs; and
- using government frameworks where available and ensuring that the suppliers we engage follow sustainable practices.

⁴ Prepared in accordance with [HM Treasury Public Sector Annual Reports Sustainability Reporting Guidance 2015-16](#)

⁵ Carbon offsetting is the use of carbon credits to enable organisations to compensate for some of their emissions. Organisations can make up for some of the carbon emissions by buying credits in projects by funding an equivalent carbon dioxide saving elsewhere.

We are committed to reusing our furniture where possible, using recycled stationery products, and using the Buying Standards as a guide for cleaning, construction, and purchase of equipment.

In 2016-17, we relocated our North Wales office to smaller premises with improved environmental performance. We also used the WRAP Business Waste Weights Calculator tool to provide a more accurate measurement of our levels of waste. Through using the tool we recalculated our previous years' data and established a revised baseline and targets.

Our water consumption continued to increase in 2016-17, primarily due to a leak which has now been fixed, and the ongoing increase in the number of stakeholder and shared learning events held at our premises. In 2017-18, we will explore whether there are any ways through which we can improve our performance in this area.



6 CLEAN WATER AND SANITATION



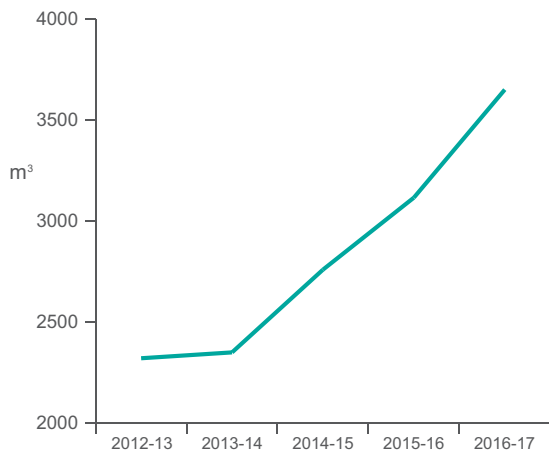
13 CLIMATE ACTION



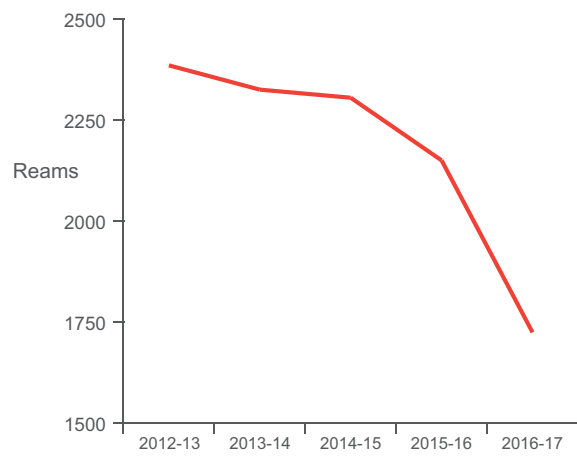
15 LIFE ON LAND



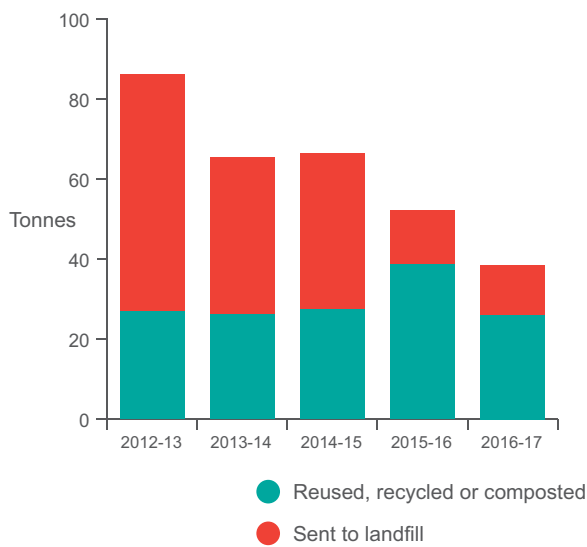
Water consumption



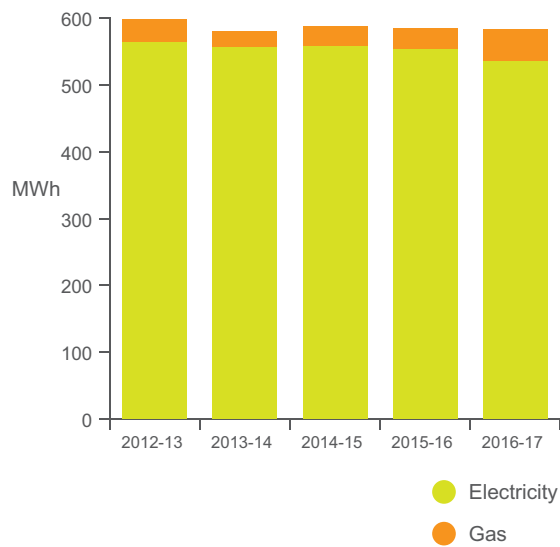
Paper consumption



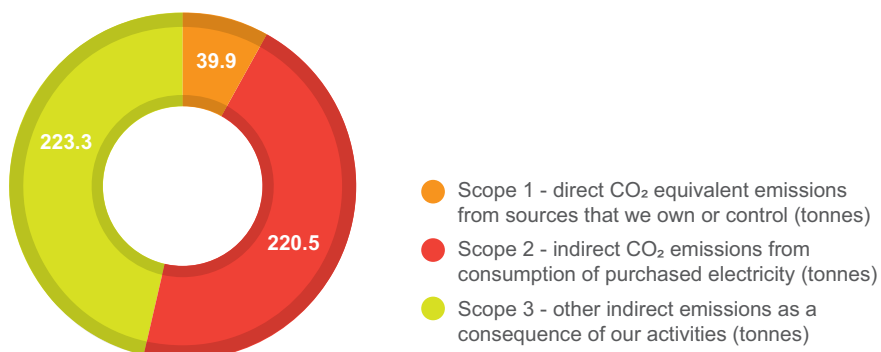
Waste minimisation and management



Energy consumption



Greenhouse gas emissions



	2016-17	2015-16	2014-15	2013-14	2012-13
Environmental management					
Level of Green Dragon accreditation	4	4	4	4	4
Finite resource consumption⁶					
Water consumption m ³	3,650	3,116	2,760	2,351	2,322
Water consumption m ³ per FTE	13.9	10.5	12.0	10.1	9.9
Water supply costs £	6,219	6,280	4,754	4,348	3,336
Paper consumption in reams	1,725	2,150	2,305	2,325	2,385
Paper supply costs £	4,269	5,609	6,349	6,426	6,112
Waste minimisation and management⁷					
Total waste tonnes	38.7	54.9	66.5	65.8	86.0
Reused, recycled or composted	26.0	38.6	27.4	26.2	26.9
ICT waste recycled and reused (externally)	0.7	2.6	0	0	0
Furniture and equipment (externally)	2.6	12.3	0	0	0
Mixed recycling, paper, food waste, garden	22.6	23.7	27.4	26.2	26.9
Landfill	12.4	13.7	39.1	39.2	59.2
Hazardous	0.4	2.5	0	0.4	0
Reused, recycled, composted as % of total waste ⁸	67.0	70.4	41.1	39.8	31.2
Total disposal costs £	13,466	16,400	7,337	6,229	8,586

6 Good and best practice for water usage within an office is considered to be 4 m³ to 6 m³ and ≤4 m³ respectively per Full-Time-Equivalent (FTE) 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.

7 Calculated using appropriate WRAP conversion factors.

8 78% for the Welsh Government in 2015-16 ([State of the Estate Report 2015-16](#)).

	2016-17	2015-16	2014-15	2013-14	2012-13
Greenhouse gas emissions⁹					
Total emissions tonnes CO ₂	483.7	533.0	563.1	539.5	551.6
Attributable to business travel	233.2	272.3	275.7	252.1	251.8
By car	199.5	232.7	239.1	231.2	235.9
By rail and air	33.7	39.6	36.6	20.9	16.0
Attributable to energy consumption	227.8	233.8	263.3	261.8	299.8
Electricity	220.5	228.3	257.7	257.5	293.4
Gas	7.3	5.5	5.5	4.3	6.4
Attributable to other ¹⁰	22.6	23.6	24.1	25.6	n/a
Total expenditure on business travel £000 ¹¹	1,232	1,258	1,214	1,173	1,142
Cost per FTE of business travel £	4,720	4,972	5,037	4,827	5,053
Total energy expenditure £	57,051	64,394	63,119	56,556	69,874
Efficiency of estate					
Cost per FTE £ ¹²	3,072	3,228	3,397	3,431	3,186
Cost efficiency ¹³ £ per m ²	287	300	278	285	265
Space efficiency m ² per FTE ¹⁴	10.7	10.7	12.2	12.0	12.0

⁹ Calculated in accordance with [DEFRA Environmental Reporting Guidelines](#).

¹⁰ Attributable to energy transmission and distribution, waste disposal and water usage and treatment. First measured in 2013-14.

¹¹ Includes costs of leased cars, transport allowances and travel and subsistence.

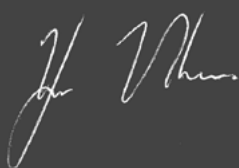
¹² Compared to £3,229 for the Welsh Government as of 31 March 2016.

¹³ Including rent, rates and other costs.

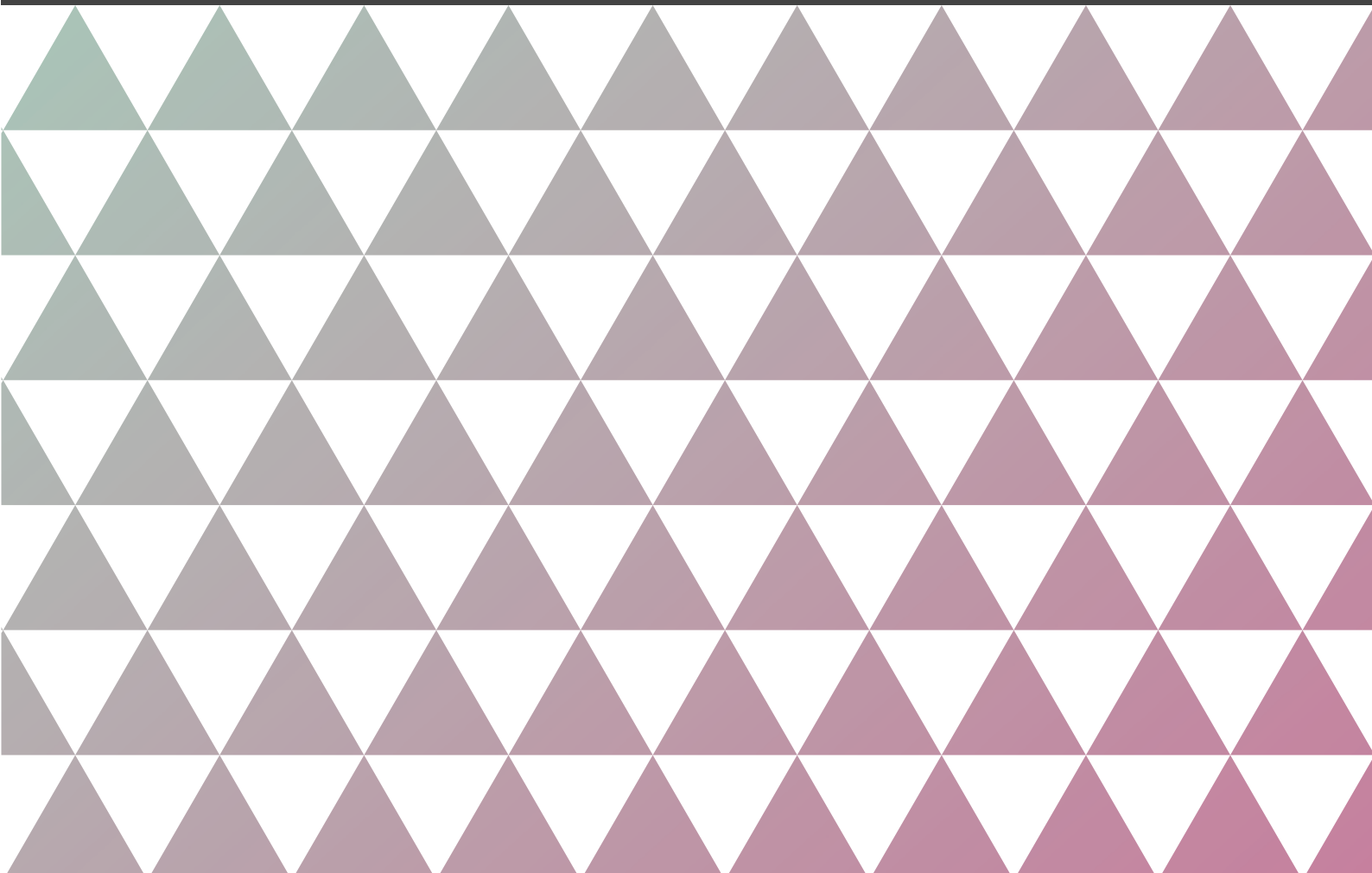
¹⁴ Compared to 15.2 m² per FTE for the Welsh Government as of 31 March 2016. 2015-16 was the first year that we included contractors in our FTE total, to ensure a like-for-like benchmarking comparison.

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
8 June 2017



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.

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 disability¹⁵) 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 2017-18](#) provides an outline of likely future developments in the business of the Auditor General and Wales Audit Office.

Communication and engagement with staff

During the course of the year we 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.

¹⁵ 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; and
- 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.

These included:

- holding regular team meetings with senior staff and Board member involvement, and an all-staff conference;
- 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 more specifically
- the Auditor General holding focus groups with staff at each of our offices during January 2017 to gather their views and hear their responses to the [Consultation on our draft strategy for 2017-2020](#);
- undertaking and sharing the results of a staff 'pulse survey', alongside making a commitment to apply the same framework of core questions as the [Civil Service People Survey](#) to our own survey in autumn 2017; and
- holding a series of culture workshops for staff between October and December 2016, to explore our differing perspectives on, and develop an agreed framework for, the values and behaviours that we should exhibit in our day to day work.

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

Auditor of the Wales Audit Office

RSM UK Audit LLP have been appointed as the external auditor of the Wales Audit Office by the Finance Committee of the National Assembly for Wales for a period of 43 months commencing 1 March 2015.

In addition to their work to form an opinion on the financial statements, RSM UK Audit LLP are engaged to provide value-for-money reports on the Wales Audit Office to the Finance Committee, which are available on the [National Assembly's website](#).

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 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



Jane Holownia

Sector Lead, Local
Government and
Criminal Justice



Mike Usher

Sector Lead,
Health and Central
Government



Kevin Thomas

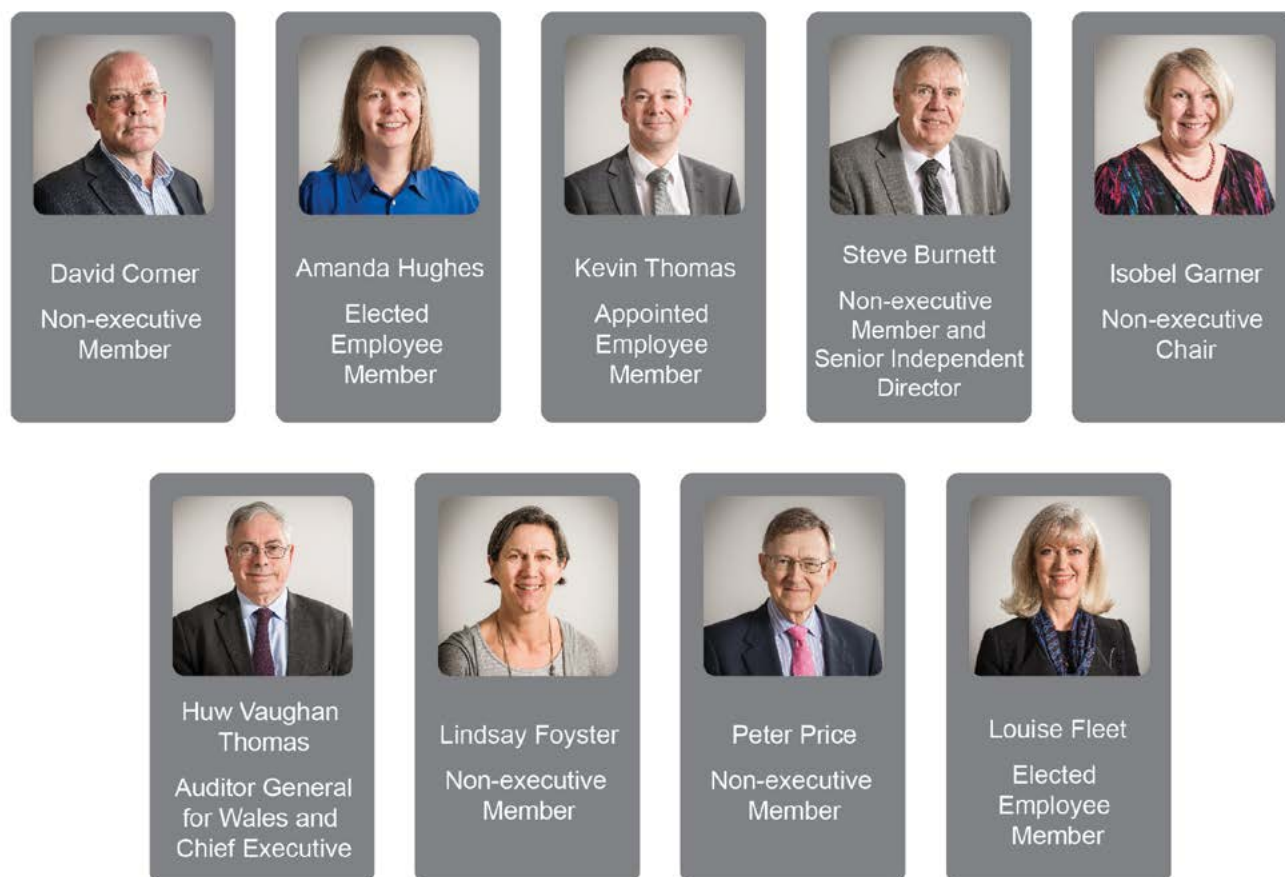
Director of
Corporate Services



**Steve
O'Donoghue**

Director of Finance
and HR

The Wales Audit Office Board



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

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 issued by the National Assembly for Wales.

The responsibilities of an Accounting Officer, including 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 Welsh Public Money](#) published by the Welsh Government.

Additional responsibilities are described in the Memorandum for the Accounting Officer of the Wales Audit Office, issued by the National Assembly, including that 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 National Assembly;
- ensure that the resources for which the Wales Audit Office is responsible are properly and well managed and safeguarded; and
- provide advice to the Wales Audit Office on all matters of financial propriety and regularity.

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, 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 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 out-turn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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 Board of nine members comprises a majority of five non-executive members (including the Chair), the Auditor General, an employee member appointed on the Auditor General's recommendation and two elected employee members.

There is a Senior Independent Director whose responsibilities include: deputising for the Chair when he or she is unable to act; appraising the performance of the Chair; receiving reports from whistleblowers outside the normal line management chain; and overseeing the election of employee members to the Board.

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 Practice Governing the Relationship between the Auditor General for Wales and the Wales Audit Office](#), which is approved by the National Assembly.

The Board has established two committees which operate in an advisory capacity:

- The Audit and Risk Assurance Committee comprises two non-executive Board members, an elected employee Board member and an independent member. The elected employee Board member is not a member of the Management Committee nor involved in senior level decision-making other than in a Board capacity.
- The Remuneration and HR Committee comprises three non-executive members of the Board and an elected employee Board member, but the elected employee member may not attend for those items where there is a conflict of interest that cannot be managed or mitigated.

Both committees operate according to terms of reference approved by the Board and which are reviewed every year as part of the committees' annual reporting arrangements.

I have established a Management Committee to advise me in my capacity as Auditor General, Chief Executive and Accounting Officer. The Committee operates within an agreed terms of reference which it reviews annually.

The Board and its Committees, and the Management Committee are supported by a Board Secretary. There is a forward programme of business that informs their provisional agenda, designed to ensure that business is conducted as efficiently and effectively as possible.

Further information on membership of the Board and Management Committee can be found in the [Directors' Report](#).

FINANCE COMMITTEE OF THE NATIONAL ASSEMBLY

Scrutinises the Wales Audit Office's use of resources, recommends the appointment of the Auditor General 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 AND HR COMMITTEE

Advises the Board by scrutinising and challenging three broad areas of human resources management and development:

- a) governance;
- b) performance; and
- c) policy and remuneration.

AUDIT AND RISK ASSURANCE COMMITTEE

Advises the Board by:

- a) reviewing the comprehensiveness and reliability of sources of corporate assurance;
- b) reviewing the integrity of the annual report and accounts; and
- c) providing an opinion on how well the Board and the Accounting Officer are supported in discharging their respective roles.

MANAGEMENT COMMITTEE

Directs and oversees implementation of the aim and objectives, three-year strategy and priorities, and planned programmes of work laid out in the joint annual plan of the Auditor General and Wales Audit Office.

Attendance at Board and committee meetings 2016-17

	Board	ARAC	RHRC	MC
Number of meetings held	6	4	4	12
Members of the Board and its committees				
Isobel Garner ¹⁶	6	4		1
Steve Burnett	6		4	
David Corner, Chair of the Audit and Risk Assurance Committee (ARAC)	6	4		
Peter Price, Chair of the Remuneration and HR Committee (RHRC)	6		4	
Lindsay Foyster	6		4	
Huw Vaughan Thomas ¹⁷	5	4	4	9
Kevin Thomas ¹⁸	6	4		10
Amanda Hughes	6	3		
Louise Fleet	5		2	
Alison Gerrard ¹⁹ , Independent Non-executive ARAC Member	1	4		
Members of the Management Committee (MC) who are not Board members²⁰				
Anthony Barrett	4			10
Gillian Body	5			12
Mike Usher	3			11
Alan Morris ²¹	1	1		8
Steve O'Donoghue ²²	4	4	4	10
Jane Holownia	1			6

¹⁶ Isobel Garner attended one meeting of the Management Committee in her capacity as Chair of the Wales Audit Office.

¹⁷ Huw Vaughan Thomas attended ARAC and RHRC meetings in his capacity as Chief Executive and Accounting Officer.

¹⁸ Kevin Thomas attended ARAC meetings in his capacity as Director of Corporate Services.

¹⁹ Alison Gerrard attended one meeting of the Board as an observer.

²⁰ Management Committee members attended meetings of the ARAC as necessary to give briefings, participate in discussions or to take their advice. They have a standing invitation to attend Board meetings.

²¹ Alan Morris retired from the post of Sector Lead, Local Government and Criminal Justice on 2 January 2016 and was replaced on the Management Committee by Jane Holownia.

²² Steve O'Donoghue, as Director of Finance and HR, is required to be in attendance at all meetings of the Board, ARAC and RHRC.

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.

The 2015-16 annual report of the former Remuneration Committee noted that the Wales Audit Office's scheme of delegation reserves to the Board the setting of HR policies. In November 2015, the Board approved a proposal to reconstitute the Committee as a Remuneration and 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. The newly constituted Committee held its first formal meeting in July 2016.

In 2016-17, the Audit and Risk Assurance Committee worked with the Management Committee to conduct an assurance mapping exercise aimed at systematically aligning relevant controls and sources of assurance with the Board's information requirements, and ensuring that:

- reporting is comprehensive and robust, and
- there are no gaps or duplication.

Following review of a preliminary draft of an assurance map during the latter part of the year, further development work is currently being undertaken, with particular reference to [HM Treasury's 'three lines of defence' model for categorising sources of assurance](#). A final draft of the map will be considered by the Audit and Risk Assurance Committee at its meeting in September 2017.

The Board Secretary maintained the Board's register of interests, which members review annually. The register 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.

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 Chair of the Audit and Risk Assurance Committee. In addition, the Committee held a private session with the internal and external auditors 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 in central government departments](#) insofar as its requirements are relevant and practical. The arrangements did not comply with the Code's requirements in respect of the following aspects:

- The Board's composition is prescribed by statute, and to include ministerial representation and government officials would risk compromising my independence as Auditor General.
- The Board has not established a nominations committee but the functions described in the Code are undertaken by the Board and the Remuneration and HR Committee.

Board performance and effectiveness review

In September 2016, the Board considered the report of an independent evaluation of its effectiveness. The review focused on: Board tasks as set out in relevant legislation; Board composition, functioning and resources; individual contribution to the Board and group dynamics; and the impact of the Board. It established a benchmark position at the beginning of 2015 and completed a full evaluation of progress against the benchmark in July 2016.

The evaluation concluded that:

'This is an effective to highly effective Board which is well resourced and continues to develop its own performance. It has the capacity and appetite for further development to enhance its impact. The Board has firmly grasped its statutory responsibilities and exercises good oversight of the operational aspects of the Wales Audit Office. The Board's current primary challenge is how best to provide advice and oversight on strategic changes to drive improvement in organisational performance and impact.'

In November 2016, the Board approved an action plan to implement the review's recommendations and will be monitoring progress during 2017-18.

The Board has recognised the potential risks to its effectiveness as the current terms of appointment of most non-executive members and the elected employee members come to an end during 2017 and 2018. My appointment as Auditor General also terminates in 2018. The Board is working with the National Assembly's Finance Committee to ensure that arrangements are in place to ensure an effective transition.

At the end of 2016-17, the Chair was completing members' performance appraisals, informed where appropriate by input from the Chairs of the Board committees. The Senior Independent Director was also completing an appraisal of the Chair's performance, including setting objectives for the coming year.

As part of their annual reporting requirements, the Board committees each complete a self-assessment of their effectiveness. The Audit and Risk Assurance Committee has adopted the National Audit Office's checklist which captures the good practice principles described in HM Treasury's Audit Committee Handbook. The Remuneration and HR Committee has adapted the checklist to ensure that it is relevant and proportionate to its needs. The Board is satisfied with the robustness of the assessments and content that there are no matters of concern.

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 2017, summarising its conclusions from the work it had undertaken during 2016-17.

On the strength of the work completed during the year, the Committee confirmed that:

- the strategic risk management arrangements appear to be operating effectively and are linked to the operational arrangements in place at business unit level;
- the draft annual governance statement is consistent with the Committee's view of the Wales Audit Office's control framework; and
- there appear to be no significant gaps in the assurance framework but completing the assurance map is critical to confirming that this is the case.

The Committee assessed the performance of the internal and external auditors using checklists developed from those used by one of the large accountancy practices.

The Committee was content, overall, with the quality of the external audit service, though the external auditor accepted that there was scope to further improve the liaison arrangements with internal audit (noting the constraints of international auditing standards).

In respect of the internal audit service, the Committee noted the improved arrangements for gathering feedback during the year and that the quality of core financial systems work was good. The Committee also noted that concerns raised by management during the year about the availability of specialist skills to deliver non-standard work were being addressed.

Report of the Remuneration and HR Committee

The Remuneration and HR Committee presented its annual report to the Board and Accounting Officer in June 2017.

Following the Board's approval of its work programme in July, the Committee began to settle into a routine pattern of business. More time is needed to ensure that the scope of the Committee's remit is appropriate and that the Committee is exercising its responsibilities effectively in the context of the Board's strategic functions.

The Committee has been conscious that much of its work can have a direct impact on staff morale and on the day-to-day decisions that affect staff most directly. It recognised the balance needed in providing a supportive working environment that allows staff to achieve their aspirations within the context of meeting business need.

Throughout the year, members emphasised the need for HR policies and practices to support the cultural change that the Board is seeking and to position the Wales Audit Office as an employer of choice in a competitive market.

The Committee was content overall that the policies it reviewed during the year were consistent with the Board's strategic vision.

Internal auditor's report

BDO LLP were appointed as the internal auditors of the Wales Audit Office for the year ended 31 March 2017. An internal audit plan for 2016-2019 was prepared for consideration and was approved by the Audit and Risk Assurance Committee at its meeting on 25 February 2016.

During 2016-17, seven internal audit reports were issued by BDO LLP on reviews of financial controls (interim and final), the benefits of implementation of the Insight IT platform, the policy and procedure framework, information governance, workforce planning, and fraud controls.

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

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

In his annual statement of assurance for 2016-17, the Head of Internal Audit reported that:

‘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.

The conclusions and findings from our reports in the year ... confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.’

Risk appetite and management

Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity, 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 Audit and Risk Assurance Committee, 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: approving and overseeing the implementation of the Wales Audit Office's risk management policy and agreeing any resources needed to support this corporately; assessing and managing strategic risks; and reviewing 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

At each of its meetings in 2016-17, the Board considered a summary of 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 had been put in place to mitigate risk likelihood and impact and achieve targets;
- provided an assessment of residual levels of risk;
- identified risk movements and highlighted changes that had been made to mitigating controls since the last Board meeting; and
- summarised the content of the register through inherent and residual risk heat maps and profiles.

A number of key strategic risks fluctuated during the year and particularly engaged the time of the Board and Management Committee. These included:

- our current workforce capacity and capability levels not meeting the requirements of our future audit environment, particularly in relation to the upcoming requirement for earlier closure of local government accounts, fiscal devolution, and delivering the Auditor General's responsibilities under the Well-being of Future Generations (Wales) Act 2015; and
- insufficient funding from fees, grant funding and financing from the Welsh Consolidated Fund for the Auditor General to deliver his statutory functions in a way that delivers the desired levels of impact and added value.

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

In 2015-16, the Board clarified the Audit and Risk Assurance 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 arrangements were robust. The Committee continued that approach in 2016-17 and considered two strategic risks, alongside undertaking a review of the operational risk register. The Committee was content that its detailed reviews demonstrated that the Wales Audit Office's risk management arrangements were operating effectively.

A number of risks were successfully managed and removed from the strategic risk register during 2016-17. The risks were either closed completely or de-escalated to the operational risk register for ongoing management by the relevant risk lead.

The Wales Audit Office also faces a number of newly identified risks going forward into 2017-18, which have been reflected in our strategic risk register. In particular:

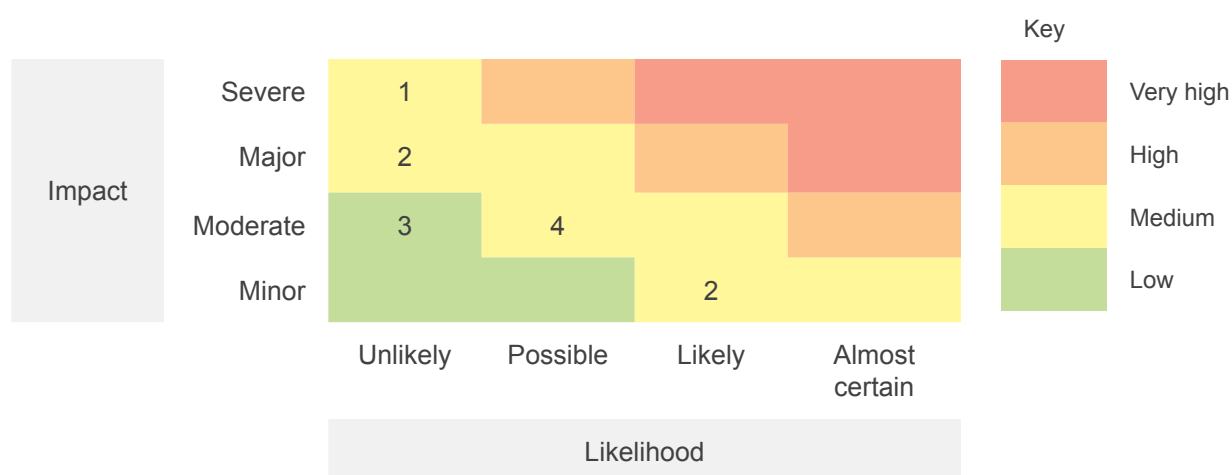
- failing to deliver on the opportunities presented by the introduction of the Well-being of Future Generations (Wales) Act 2015 to reshape and add further value to our audit approach in Wales;
- our Welsh-language skills being insufficient to meet the requirements of the new Welsh Language Standards; and
- ineffective planning for the potential implications of further public service and constitutional reform, including Brexit, which may result in changes to the volume and nature of audit work.

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 2017 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.



Information governance

As Auditor General, I have wide-ranging access to information for the discharge of my audit functions. These powerful statutory 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 2016-17.

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 2016-17 financial year, we received 51 requests for information, and met the statutory deadlines for each of these requests.

We were not subject to any reviews in 2016-17 by the Information Commissioner.

Whistleblowing (internal)

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.

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.

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 met directly from the Welsh Consolidated Fund (WCF) rather than being paid by the Wales Audit Office. For 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 2016-17 was £153,000 (2015-16: £153,000).

Mr Huw Vaughan Thomas has opted for a partnership pension account (a form of personal stakeholder pension to which an employer contributes). Total employer contributions to this account during 2016-17 were £27,923 (no member contributions were made) (2015-16: £31,237 including employer contributions of £26,701 and member contributions of £4,536).

Wales Audit Office Board

The Wales Audit Office Board comprises five non-executive members appointed by the National 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 Board²³ and disclosed in this report. The Auditor General and the Director of Corporate Services receive no additional allowances for their Board related duties.

The information on pages 70 to 80 in the Remuneration and Staff report is subject to audit.

²³ Employee members do not participate in this decision.

Single total figure of remuneration for Wales Audit Office Board members

	Remuneration/ Allowance		Tax-inclusive expenses ²⁴		Single total figure of remuneration	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
	£	£	£	£	£	£
Isobel Garner (Chair) ²⁵	25,000	25,000	5,741	6,419	30,741	31,419
Steven Burnett	12,500	12,500	3,068	1,687	15,568	14,187
David Corner ²⁶	12,500	12,500	9,176	9,720	21,676	22,220
Lindsay Foyster	12,500	12,500	488	602	12,988	13,102
Peter Price	12,500	12,500	454	557	12,954	13,057
Amanda Hughes ²⁷	4,167	4,167	1,194	866	5,361	5,033
Louise Fleet	4,167	4,167	276	667	4,443	4,834
Total	83,334	83,334	20,397	20,518	103,731	103,852

²⁴ 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.

²⁵ The Chair's remuneration is met directly from the WCF. The Chair's travel and expenses are met by the Wales Audit Office. The Chair's remuneration is disclosed here for transparency.

²⁶ David Corner is based in North East England hence his expenses reflect the longer travel distance to Wales Audit Office offices.

²⁷ 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. 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 Audit and Risk Assurance Committee (ARAC). Remuneration for this post was determined by the Board and is non-pensionable.

Single total figure of remuneration for ARAC members

	Remuneration		Tax-inclusive expenses		Single total figure of remuneration	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
	£	£	£	£	£	£
Alison Gerrard ²⁸	5,000	5,000	142	184	5,142	5,184
Total	5,000	5,000	142	184	5,142	5,184

Wales Audit Office staff

The Wales Audit Office pay policy is available on our [website](#).

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 in 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.

²⁸ Alison Gerrard's current term of office will end in September 2017.

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 performance appraisal arrangements that suspend salary increments if performance is less than satisfactory.

During 2016-17, no payments were made to past directors (2015-16: £15,265). Set out below 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 2017					Year to 31 March 2016				
	Salary ²⁹	Benefits in kind	Taxable expenses ³⁰	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	120-125	300	15,100	37	170-175	115-120	4,600	11,800	57	185-190
Gillian Body	120-125			(1)	120-125	120-125	–	–	39	160-165
Jane Holownia ³¹	20-25			5	25-30	–	–	–	–	–
Alan Morris ³²	80-85	1,000		59	140-145	95-100	2,800	–	72	170-175
Steve O'Donoghue	80-85			64	145-150	80-85	–	–	67	145-150
Kevin Thomas	120-125		19,300	50	190-195	120-125	–	15,000	54	190-195
Mike Usher	105-110			33	135-140	105-110	–	–	41	145-150

29 Including Travel Allowance paid to Anthony Barrett (£4,816), Gillian Body (£5,160), Kevin Thomas (£5,160) and Jane Holownia (£754). Mike Usher is entitled to Travel Allowance but did not access this in 2016-17 or 2015-16. Steve O'Donoghue is not entitled to this allowance.

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

31 Jane Holownia joined the Management Committee in January 2017 following Alan Morris's retirement as Sector Lead for Local Government and Criminal Justice. The full-year equivalent remuneration for her role is within the band 85-90 (including Travel allowance of £4,315).

32 Alan Morris retired at the end of December 2016. The salary disclosed is for nine months of the year.

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 benefit. 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 2016-17 was £18,679 (2015-16: £15,487). 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](#).

Civil Service pensions

Past and present employees of the Wales Audit Office are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). 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 [PCSPS website](#).

Pension entitlements for senior managers

	Accrued pension at pension age as at 31 March 2017 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Anthony Barrett	45-50	0-2.5	720	671	15	—
Gillian Body	50-55 plus a lump sum of 155-160	0-2.5 plus a lump sum of 0-2.5	1,136	1,088	(1)	—
Jane Holownia	40-45	0-2.5	748	739	4	-
Alan Morris	60-65	2.5-5	1,172	1,120	58	-
Steve O'Donoghue	35-40	2.5-5	507	450	34	—
Kevin Thomas	50-55	2.5-5	797	738	24	—
Mike Usher	40-45 plus a lump sum of 105-110	0-2.5 plus a lump sum of 0	716	672	13	—

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.

Compensation for loss of office

Gillian Body will leave under Voluntary Exit terms on 30 June 2017. She will receive a compensation payment of £177,000 in accordance with the Civil Service Compensation Scheme. During 2016-17, the Wales Audit Office invited expressions of interest from staff to exit under the scheme, as part of ongoing workforce planning arrangements. Gillian Body's application was considered by the Remuneration and HR Committee and approved by the Board. Savings associated with this exit will result in the cost of the compensation payment being recouped within 14 months.

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.

	2016-17	2015-16
Band of highest-paid director's total remuneration ³³ excluding pension contributions (£'000)	140-145	135-140
Median total remuneration based on full-time-equivalent staff (excluding pension contributions)	£44,065	£43,850
Range of total remuneration excluding pension contributions	£16,300- £141,452	£18,219- £136,336
Remuneration ratio	3.21	3.11

In 2016-17, no employees received remuneration in excess of the highest-paid director (2015-16: none). Remuneration ranged from £16,300 to £141,452 (2015-16: £18,219 to £136,336). The lowest remuneration in 2016-17 reflected work-experience placements. The increased remuneration for the highest-paid director includes an increase in taxable expenses.

For transparency, the Auditor General's total remuneration of £153,000 (excluding pension contributions) represented 3.47 times the median total remuneration for the Wales Audit Office (2015-16: £153,000, ratio: 3.49).

Off Payroll Engagements

The Wales Audit Office had no contracts during 2016-17 which met the HM Treasury definition of off payroll arrangements.

³³ Total remuneration includes salary, travel allowance and benefits in kind. In the case of the highest-paid director, it also includes taxable expenses. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Redundancies, early retirements and severances

The Wales Audit Office operates voluntary-severance arrangements in accordance with the Civil Service Compensation Scheme. These schemes are in accordance with workforce planning requirements and have resulted in reductions to the staffing cost base of the Wales Audit Office.

The cost of the scheme in 2016-17 was £695,700 (2015-16: Nil). This will deliver savings estimated at £400,000 annually.

Sixteen employees entered into approved exit packages during 2016-17 as detailed below:

Exit package cost band	2016-17			2015-16		
	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	—	8	8	—	—	—
£25,001-£50,000	—	3	3	—	—	—
£50,001-£100,000	—	4	4	—	—	—
£150,001-£200,000	—	1	1	—	—	—
Total	—	16	16	—	—	—

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

Staff report

Senior leadership

The following table details the number of full-time equivalent senior staff by band at 31 March 2017

	2016-17	2015-16
Band A (£88,163 - £115,678)	3	3
Band B (£77,911 - £102,252)	3	3
Band C (£70,223 - £88,824)	8	8
Total	14	14

Posts in Band A and B form the Management Committee, chaired by the Auditor General. With posts in Band C, they collectively form the Senior Leadership Team.

Staff numbers

The average number of full-time equivalent staff employed increased by one during the year; the number of permanent staff fell by six with an increase of seven staff on fixed-term contracts. This reflects an increase in the number of audit trainees in line with our workforce planning principles and the [Finance Skills Development initiative](#).

	2016-17	2015-16 (Re-stated) ³⁴
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	217	223
Average number of full-time-equivalent, UK-based, staff on fixed-term contracts employed during the year	27	20
Audit and inspection contractors (average number of full-time equivalents in year)	9	8

³⁴ Staff numbers for 2015-16 have been re-stated to adjust for new starters in the year.

Staff and associated costs

	2016-17	2015-16
	£'000	£'000
Staff salaries	10,992	10,826
Seconded-in staff	69	210
Short-term contract staff	301	285
Non-executive member remuneration	68	68
Social security costs ³⁵	1,294	1,095
Pension costs (PCPS)	2,379	2,335
Pension costs (stakeholder pensions)	4	4
	15,107	14,823
Transport allowance and leased cars	720	782
Car-scheme contractual changes	-	128
Subscriptions ³⁶	73	42
	15,900	15,775
Short-term contract staff	216	222
	16,116	15,997
Redundancy, early retirement and severance costs	702	31
Less monies received in respect of outward secondments	(45)	(45)
Net staff costs	16,773	15,983

³⁵ The increase in social security costs is a consequence of higher employer national insurance contributions from April 2016.

³⁶ Fees for the membership of professional bodies, eye tests and health screening.

Bought-in services

	2016-17	2015-16
	£'000	£'000
Payments to private accountancy firms	952	2,269
Research and other consultancy costs	199	101
	1,151	2,370

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 (pages 81 to 84) in the Remuneration and Staff report is not subject to audit.

Staff policies, equality and diversity

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.

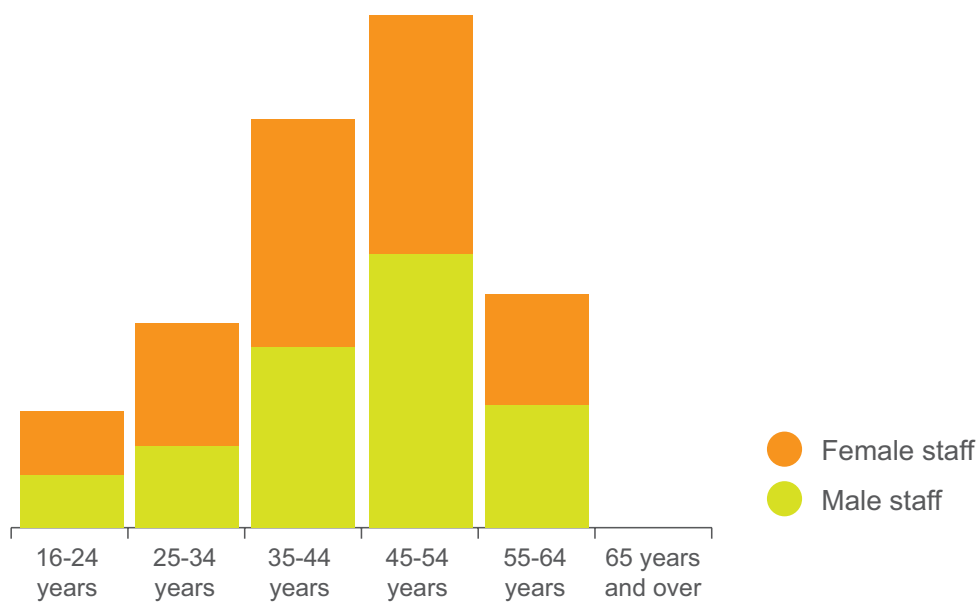
We also have a responsibility to uphold the conventions set out in the Human Rights Act 1998. We are committed to providing a work environment that values the diversity of all people, both our own staff and those with whom we come into contact during our work, and we fully support the rights of people 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.

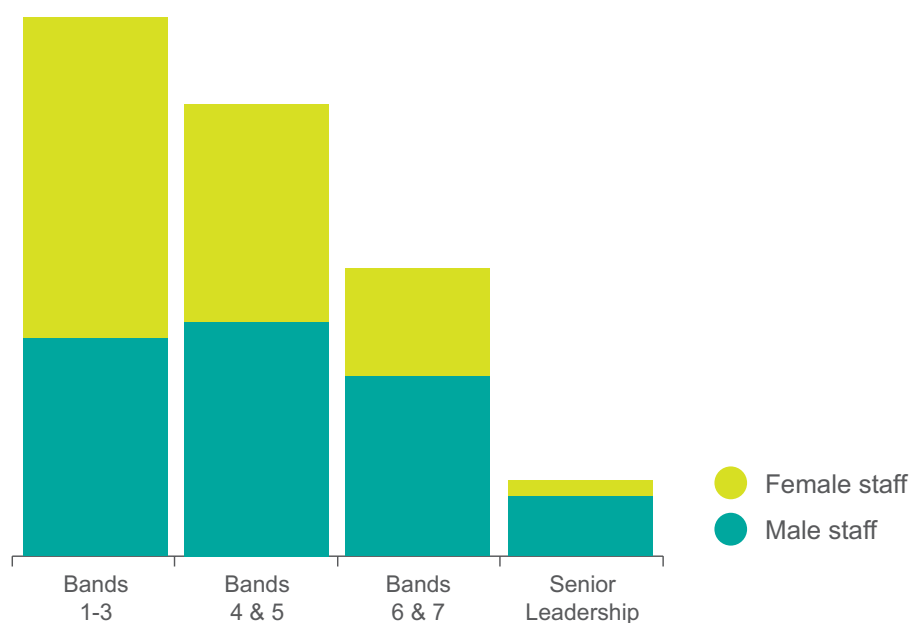
The Wales Audit Office monitors the impact of these policies using data collected from staff where they chose to disclose.

	2016-17	2015-16
Diversity	%	%
Female	51.8	49.6
Aged less than 35 years	21.7	20.6
Aged 35 to 54 years	62.5	62.6
Aged 55 years and over	15.8	16.8
Staff with a disability	8.7	8.0
Staff from an ethnic minority	3.2	2.7
LGBT+ staff	4.0	3.1

Staff age and gender analysis 2016-17 (headcount)



Staff grade and gender distribution 2016-17



Grade distribution	2016-17	2015-16
Staff in senior leadership team bands ³⁷ (A to C) percentage	5.7	5.6
Staff in management bands (6 and 7) percentage	19.9	21.6
Staff in supervisory pay bands (4 and 5) percentage	37.0	33.2
Staff in other pay bands (1 to 3) percentage	37.4	39.6
Percentage staff in senior leadership team that are female	20.3	20.3
Percentage staff in management that are female	37.2	37.9
Percentage staff in supervisory roles that are female	50.2	48.0
Percentage staff in other pay bands that are female	62.4	59.7

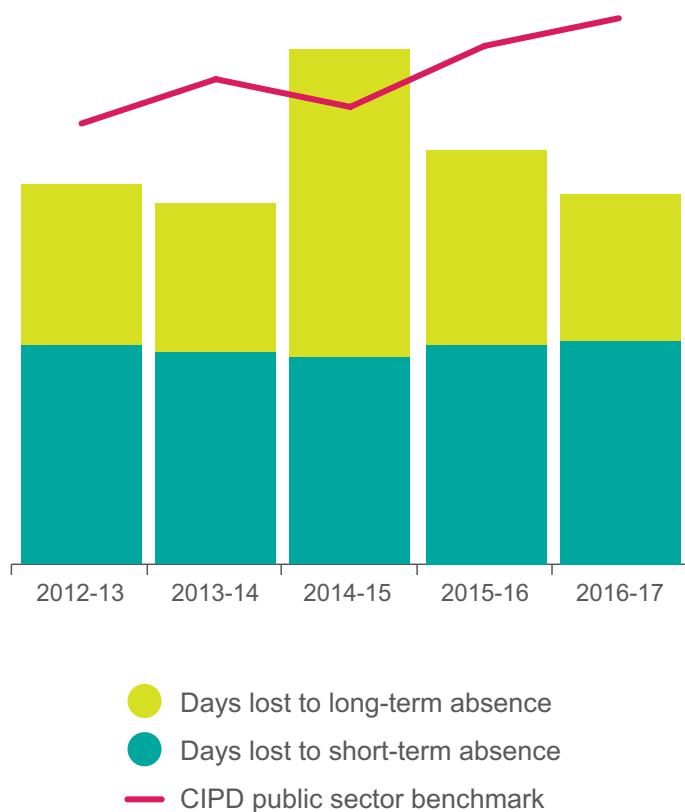
³⁷ Excluding Auditor General and Non-Executive Board Members.

Sickness absence

- Our staff sickness levels reduced by an average of one day per person due to a reduction in long-term sickness.
- The overall absence figure was over three days less than the Chartered Institute of Personnel and Development (CIPD) benchmark³⁸, and has met our corporate target of 6.5 days.

	2016-17	2015-16
Average working days lost per member of staff	6.5	7.3
Due to short-term absence	3.9	3.9
Due to long-term absence (periods of ≥21 days)	2.6	3.4

Staff sickness absence 2012-13 to 2016-17

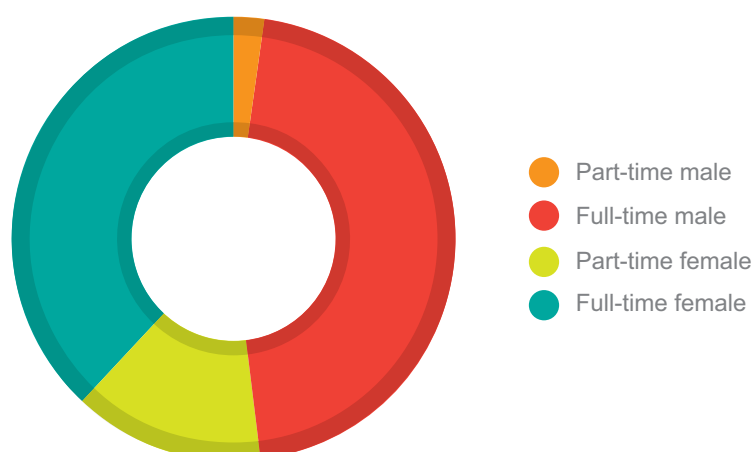


³⁸ Mean of 9.8 days per employee per year for those public service organisations that responded to the 2016 CIPD annual Absence Management Survey.

Our workforce

- The proportion of part-time employees increased by 1% in 2016-17. This increase included a reduction for men of 1% and a 2% increase for women.
- 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 has increased to 10.5%. Whilst this is an increase as compared to 2015-16, it is in line with previous years.

	2016-17	2015-16
Working patterns		
Part-time employees as a percentage of total	16.2	15.3
For men	4.9	6.1
For women	26.7	24.6
Employment contract type		
Percentage of staff on permanent employment contracts	88.5	90.5
Turnover		
Annual staff turnover rate percentage	10.5	5.3



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer
8 June 2017

RESOURCE OUT-TURN AND AUDITORS' REPORT

Summary of Resource Out-turn 2016-17 and associated notes

The information on pages 85 to 88 is subject to audit.

This statement provides a comparison of the Estimate for 2016-17, as voted by the National Assembly with actual income and expenditure for the year.

NOTE		2016-17 Estimate			2016-17 Out-turn			Net total out-turn compared to estimate	2015-16 Out-turn
		Gross expenditure	Income	NET TOTAL	Gross expenditure	Income	NET TOTAL		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
SORO1	Revenue	23,393	(16,715)	6,678	21,747	(15,261)	6,486	(192)	5,807
SORO1	Capital	250	–	250	222	–	222	(28)	39
	Total Resources	23,643	(16,715)	6,928	21,969	(15,261)	6,708	(220)	5,846
SORO2	Net Cash Requirement			6,728			6,233	(495)	6,003

Arising from the operations of the Wales Audit Office for the financial year 2016-17:

- the net total out-turn on revenue resources was £192,000 within the approved net resources of £6,678,000;
- the out-turn on capital spend was £28,000 within the approved capital budget of £250,000;
- the sum of £495,000 is repayable to the WCF, being the unused sum of cash drawn down.

Notes to the Summary of Resource Out-turn

Note SORO1: Analysis of net resource out-turn 2016-17

2015-16 Out-turn		2016-17 Estimate	2016-17 Out-turn	Variance	Reason for significant variances against the Estimate
£'000		£'000	£'000	£'000	
Expenses					
14,388	Staff costs	16,183	15,204	(979)	Linked to reduced fee income and reduced WPI grant
507	Contractor staff	1,213	517	(696)	Linked to reduced fee income and reduced WPI grant
1,258	Travel and subsistence	1,414	1,232	(182)	Linked to lower staffing
2,582	Private sector firms (incl VAT)	953	1,099	146	Offset by higher than expected income from firms' work
969	Accommodation	986	912	(74)	Reduced energy and maintenance costs
427	ICT	459	455	(4)	
344	Balance of irrecoverable VAT	390	624	234	Increase in non-recoverable VAT
306	Wales Audit Office Governance Arrangements	300	332	32	
266	External training	275	295	20	
167	Legal and professional fees	214	139	(75)	Largely re-active expenditure
145	Translation of documents	120	115	(5)	
603	Other costs	886	823	(63)	
21,962	TOTAL EXPENSES	23,393	21,747	(1,646)	
Income					
(13,632)	Audit fees	(14,066)	(13,263)	803	A combination of the loss of some audit work and timing of when work is done – see link to reduced staff costs.
(1,560)	Grant certification fees	(1,663)	(1,540)	123	In line with previously identified reductions
(951)	WPI Grant	(986)	(433)	553	Subsequent to the approval of the Estimate for 2016-17, Welsh Government announced a reduction in this grant
(12)	Other income	-	(25)	(25)	
(16,155)	TOTAL INCOME	(16,715)	(15,261)	1,454	
5,807	NET REVENUE RESOURCE	6,678	6,486	(192)	
39	CAPITAL EXPENDITURE	250	222	(28)	

Income from fees and WPI grant was £1.5 million less in 2016-17 than that anticipated when the 2016-17 Estimate was agreed. As a consequence, our staffing and other costs were reduced accordingly through vacancy management and lower than planned use of short-term contractors. Despite these challenges, the net cost of the Wales Audit Office was £192,000 less than anticipated when the Estimate was agreed.

The financial management summary on page 35 provides further explanation of cost efficiency at the Wales Audit Office.

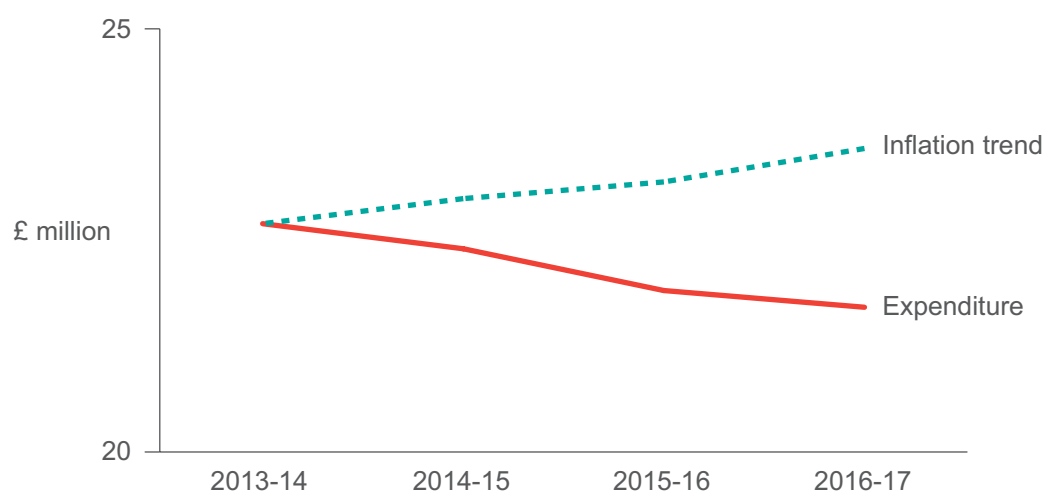
Audit fee income is governed by the Fee Scheme approved by the Finance Committee of the National Assembly. A breakdown of this income is included in Note 1 to the Financial Statements.

Note SORO2: Reconciliation of net resource out-turn to net cash requirement

	2016-17		2015-16	
	Estimate	Out-turn	Variance	Out-turn
	£'000	£'000	£'000	£'000
Revenue resources	6,678	6,486	(192)	5,807
Capital resources	250	222	(28)	39
Adjustments:				
Non-cash items (depreciation)	(200)	(204)	(4)	(193)
Movements in working capital other than cash:	—			
- (Increase)/reduction in receivables and work in progress	—	(504)	(504)	550
- Increase/(reduction) in payables and deferred income		98	98	(14)
- Increase/(reduction) in current provisions		135	135	(186)
Total net cash requirement	6,728	6,233	(495)	6,003

Long-term expenditure trends

Since 2013-14, the Wales Audit Office has reduced its expenditure by 8% in real terms³⁹, as represented below. The cumulative saving generated across those years amounts to £3.7 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.



Future budgeted expenditure and income of the Wales Audit Office is voted annually by the National Assembly.

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

As disclosed in Note 14 to the Financial Statement, there were no special payments or disclosable losses in 2016-17.

³⁹ Based on GDP deflators published by ONS June 2016.

Independent Auditors' Report to the National Assembly for Wales

We certify that we have audited the financial statements of the Wales Audit Office for the year ended 31 March 2017 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. We have also audited the information in the Remuneration and Staff Report that is described in the report as having been audited.

The financial reporting framework that has been applied in their preparation is HM Treasury directions issued under the 2013 Act.

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 2017 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

We have 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 Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

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.

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](#).

Scope of the audit of regularity

We are 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 Wales Audit Office 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 other matters

In our opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with 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.

Responsibilities of the Wales Audit Office and the Auditor General for Wales

As explained more fully in the Statement of the Accounting Officer's responsibilities set out on page 53, 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 Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

Auditor's responsibilities for the audit of the financial statements

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.

Auditor's responsibilities for regularity opinion on financial statements

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 Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

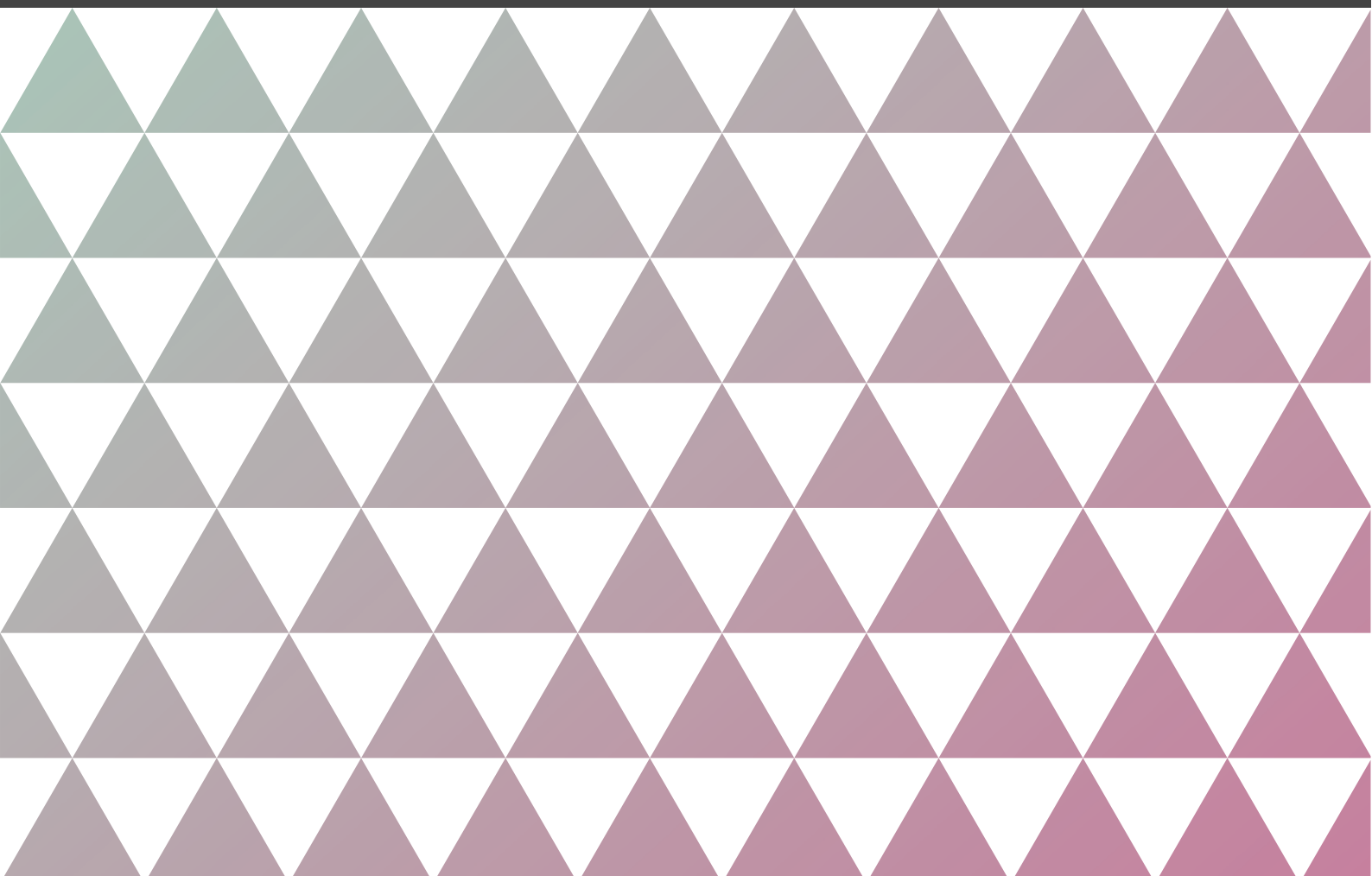
This report is made solely to the National Assembly for Wales to whom it is addressed in accordance with the Public Audit (Wales) Act 2013 and for no other purpose. Our audit work has been undertaken so that we might state to the National Assembly for Wales those matters we are required to state to them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

RSM UK Audit LLP
9 June 2017

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 2017

		2016-17	2015-16
	Note	£'000	£'000
Expenditure			
Staff and associated costs	Staff report ⁴⁰	16,773	15,983
Bought-in services	Staff report	1,151	2,370
Other operating costs	3	3,823	3,609
		21,747	21,962
Income			
Audit fee income	1	(14,803)	(15,192)
Inspection grant	1	(433)	(951)
Other operating income	2	(25)	(10)
		(15,261)	(16,153)
Net (expenditure)		6,486	5,809
Interest receivable		-	(2)
Net expenditure after tax and interest		6,486	5,807
Total comprehensive net expenditure for the year		6,486	5,807

The notes that follow on pages 98 to 113 form part of these financial statements.

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

⁴⁰ Staff costs note on page 79 of the Remuneration and Staff Report.

Statement of Financial Position at 31 March 2017

		31 March 2017	31 March 2016
	Note	£'000	£'000
Non-current assets			
Property, plant and equipment	4	590	533
Intangible assets	5	149	188
Total non-current assets		739	721
Current assets			
Trade receivables and work in progress	6	2,136	1,633
Other receivables	7	550	549
Cash and cash equivalents	8	2,789	2,950
Total current assets		5,475	5,132
Total assets		6,214	5,853
Current liabilities			
Trade and other payables	9	(2,253)	(2,225)
Deferred income	10	(2,290)	(2,220)
Provisions for other liabilities and charges	11	(485)	(350)
WCF (see Summary of Resource Out-turn)		(495)	(143)
Total current liabilities		(5,523)	(4,938)
Total assets less current liabilities		691	915
Non-current liabilities			
Provisions for other liabilities and charges	11	(765)	(736)
Total non-current liabilities		(765)	(736)
Total assets less liabilities		(74)	179
Taxpayers' equity			
General fund		(74)	179
		(74)	179

The notes that follow on pages 97 to 113 form part of these financial statements.

The financial statements on pages 94 to 113 were approved by the Wales Audit Office Board and authorised for issue on 8 June 2017 and are signed on its behalf by:



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer
8 June 2017

Statement of Cash Flows for the year ended 31 March 2017

		2016-17	2015-16
	Note	£'000	£'000
Cash flows from operating activities			
Comprehensive net expenditure		6,486	5,807
Adjustments for non-cash transactions: depreciation and amortisation	3	(204)	(193)
(Increase)/decrease in provisions	11	(164)	220
Changes in working capital			
Increase/(decrease) in trade and other receivables	6, 7	504	(550)
(Increase)/decrease in trade and other payables	9,10	(98)	14
Decrease in distribution of reserves to local-government bodies	9,10	-	2
Net cash outflow used from operating activities		6,524	5,300
Cash flows used from investing activities			
Purchases of property, plant and equipment	4	190	35
Purchases of intangible assets	5	32	4
Net cash outflow from investing activities		222	39
Cash flows from financing activities			
WCF		(6,728)	(6,146)
WCF repaid		143	698
Net financing		(6,585)	(5,448)
Movements in cash and cash equivalents	8	161	(109)

The notes that follow on pages 97 to 113 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

	£'000
Balance at 31 March 2015	(17)
Changes in taxpayers' equity in 2015-16	
Total comprehensive expenditure	(5,807)
WCF finance	6,146
	322
Payable to WCF	(143)
Balance at 31 March 2016	179
Changes in taxpayers' equity in 2016-17	
Total comprehensive expenditure	(6,486)
WCF finance	6,728
	421
Payable to WCF ⁴¹	(495)
Balance at 31 March 2017	(74)

The notes that follow on pages 97 to 113 form part of these financial statements.

⁴¹ As reported in the Summary of Resource Out-turn for 2016-17 (page 85).

Notes to Financial Statements

These financial statements have been prepared in accordance with the 2016-17 Financial Reporting Manual (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.

These financial statements have been prepared under the historical cost convention. Figures are presented in pounds sterling, which is the functional currency of the Wales Audit Office, and are rounded to the nearest £1,000.

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.

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 2018-19 financial year will be presented to the Finance Committee of the National Assembly in the autumn of 2017-18 and there is no reason to believe that funding will not be approved for that financial year.

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. An assessment is undertaken at the year-end to consider the reasonableness of income recognised taking into account the cost to complete audit projects. Income recognised in advance of invoices being raised is treated as Work in Progress (See Note 6). Invoices raised in advance of work being done is treated as Deferred Income (See Note 10).
- 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 (See Note 11).

Note 1 (a): Wales Audit Office operating segments

2016-17

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(11,161)	(3,642)		(14,803)
Grant		(433)		(433)
Other income			(25)	(25)
Total	(11,161)	(4,075)	(25)	(15,261)
Expenditure	11,118	4,118	6,511	21,747
	(43)	43	6,486	6,486

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

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

	2016-17	2015-16
	£'000	£'000
Net expenditure per above analysis	6,486	5,809
Interest receivable ⁴²	–	(2)
Per Statement of Comprehensive Net Expenditure	6,486	5,807

Note 1 (b): Analysis of audit fee income

	2016-17			2015-16		
	Financial Audit	Performance Audit	Total	Financial Audit	Performance Audit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Local Government Audit	(5,772)	(2,381)	(8,153)	(5,841)	(2,217)	(8,058)
Local Government Grant Certification	(1,540)		(1,540)	(1,560)	-	(1,560)
NHS	(2,009)	(1,261)	(3,270)	(2,090)	(1,389)	(3,479)
Central Government Audit	(1,840)		(1,840)	(2,094)	(1)	(2,095)
	(11,161)	(3,642)	(14,803)	(11,585)	(3,607)	(15,192)

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

⁴² As all cash balances are now held within the Government Banking Service, the Wales Audit Office no longer receives interest on these balances.

Note 2: Other operating income

	2016-17	2015-16
	£'000	£'000
Sundry income ⁴³	(25)	(10)
	<u>(25)</u>	<u>(10)</u>

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

	2016-17	2015-16
	£'000	£'000
Accommodation		
Rent lease costs	453	482
Other accommodation costs	384	407
Supplies and services	1,805	1,598
Recruitment	69	61
Depreciation and amortisation	204	193
Professional fees		
Internal audit services	39	49
External audit fees	36	40
Other professional fees	64	78
Staff travel and subsistence	512	476
Staff learning and development	257	225
	<u>3,823</u>	<u>3,609</u>

No non-audit services were provided by our external auditors in 2016-17.

⁴³ Sundry income includes charges for training provided, personal use of mobile phones and recharges for refreshments.

Note 4: Property, plant and equipment

	Furniture and fittings	Information technology	Office equipment	Total
2016-17	£'000	£'000	£'000	£'000
Cost				
At 31 March 2016	1,296	306	132	1,734
Additions	68	86	36	190
Disposals ⁴⁴	(35)	(15)	(8)	(58)
At 31 March 2017	1,329	377	160	1,866
Depreciation				
At 31 March 2016	907	186	108	1,201
Provided in period	79	43	13	135
Disposals	(37)	(15)	(8)	(60)
At 31 March 2017	949	214	113	1,276
Net book value				
At 31 March 2017	380	163	47	590
At 31 March 2016	389	120	24	533
Asset financing				
Owned	380	163	47	590

⁴⁴ Asset disposals in 2016-17 are in respect of fully depreciated fittings, IT infrastructure and equipment at the Ewloe office.

	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	—	35
Disposals	(81)	(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

Fixed assets are held at depreciated cost.

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.

Subsequent expenditure on assets which meets these capitalisation criteria would be further capitalised. Items not meeting these criteria would be treated as revenue expenditure in the year.

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
2016-17	£'000
Cost	
At 31 March 2016	479
Additions	32
Disposals ⁴⁵	(8)
At 31 March 2017	503
Amortisation	
At 31 March 2016	291
Provided in period	71
Disposals	(8)
At 31 March 2017	354
Net book value	
At 31 March 2017	149
At 31 March 2016	188
Asset financing	
Owned	149

⁴⁵ Being the fully depreciated cost of connection to the Welsh Public Sector Broadband Aggregation (PSBA) network at the Ewloe office.

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

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 2017 £'000	31 March 2016 £'000
Trade receivables		
Central government	161	41
Local government	449	257
NHS	178	52
External to government	25	26
Work in progress		
Central government	609	553
Local government	704	703
NHS	10	1
	2,136	1,633

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 2016-17 (2015-16: not required).

Note 7: Other receivables

	31 March 2017	31 March 2016
	£'000	£'000
Prepayments and accrued income ⁴⁶	546	548
Loans to employees ⁴⁷	4	1
	550	549

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 2016-17, the Wales Audit Office completed the process of transferring all funds to the Government Banking Service in line with the recommendations in Managing Welsh Public Money. Commercial accounts were subsequently closed as a result.

	31 March 2017	31 March 2016
	£'000	£'000
Balance at 1 April	2,950	2,841
Net change in cash and cash equivalents	(161)	109
Balance at 31 March	2,789	2,950

	31 March 2017	31 March 2016
	£'000	£'000
Current account (Government Banking Service)	2,789	1,748
Current account (Commercial Accounts)	–	1,202
	2,789	2,950

⁴⁶ Mainly advance payments for rent and other property-related costs.

⁴⁷ Cycle to work scheme and prepayments for salary sacrifice car leases.

Note 9: Trade payables and other current liabilities

	31 March 2017	31 March 2016
	£'000	£'000
Trade payables (due within one year)	431	410
VAT	62	61
Taxation and social security costs	352	340
Accrual for holiday entitlement not yet taken	509	519
Other accruals ⁴⁸	899	895
	2,253	2,225

The Wales Audit Office aims to pay 95% of all undisputed supplier invoices within 30 days of receipt and 84% within 10 days. In 2016-17, 98.6% were paid within 30 days and 77.2% within 10 days.

Note 10: Deferred income

Audit fee income recognised in our accounts is assessed by reference to time charges and a review of work in progress. We invoice for most of our work on an instalment basis through the year. Deferred income represents income that has been billed but not yet recognised.

	31 March 2017	31 March 2016
	£'000	£'000
Deferred income	2,290	2,220
	2,290	2,220

⁴⁸ The majority of the other accruals (£646,000) relates to trade payable invoices received post year-end. £253,000 is in respect of pension contributions for March 2017, paid in April 2017.

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.

	Dilapidations⁴⁹	Early retirement and severance⁵⁰	HMRC	Car scheme buy-out	Totals
	£'000	£'000	£'000	£'000	£'000
At 31 March 2016	625	221	62	178	1,086
Provided in year	36	433	–	–	469
Provisions utilised in year	(21)	(42)	–	(171)	(234)
Provisions released in year	(9)	–	(62)	–	(71)
At 31 March 2017	631	612	–	7	1250

Analysis of expected timing:

	Dilapidations	Early retirement and severance	HMRC	Car scheme buy-out	Totals
	£'000	£'000	£'000	£'000	£'000
Not later than one year	–	479	–	6	485
Later than one year and not later than five years	–	133	–	1	134
Later than five years	631	–	–	–	631
	631	612	–	7	1,250

⁴⁹ The Wales Audit Office uses HM Treasury's discount rate as set out in PES (2016) 10 for balances of 0-5 years of -2.7% and for 5 to 10 years of -1.95% to calculate this balance.

⁵⁰ The Wales Audit Office uses HM Treasury's discount rate as set out in PES (2016) 10 of 0.24% to calculate this balance.

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.

The HMRC provision at the start of the year related to potential underpayment of PAYE tax and national insurance contributions in respect of the Employee Death in Service benefit. Agreement has now been reached with HMRC that this does not constitute a taxable benefit and hence no amounts are due.

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. This provision was established in 2015-16 and the large majority of qualifying employees received payments in 2016-17. The remaining balance is in respect of employees whose leased car arrangements have not yet ended.

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 2017 in respect of non-cancellable car leases:

	31 March 2017	31 March 2016
	£'000	£'000
Within one year	34	21
Between two and five years	184	204
	218	225

There were aggregate minimum lease payments at 31 March 2017 in respect of three office accommodation leases. The Wales Audit Office has three operational offices at Cardiff, Swansea and Abergele. A new lease was signed in March 2016 for an office at Abergele which replaced the Ewloe base in June 2016.

	31 March 2017	31 March 2017	31 March 2016	31 March 2016
	£'000	Number of properties	£'000	Number of properties
Within one year	443	3	452	4
Between two and five years	1,774	3	1,634	2
Over five years	385	3	792	2
	2,602		2,878	

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 £2.34 million.

Note 13: Capital commitments

There were no capital commitments for items ordered but not yet received at 31 March 2017 (31 March 2016: £10,000).

Note 14: Losses and special payments

There were no special payments or disclosable losses in 2016-17 (2015-16: 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 2017 (31 March 2016: nil).

Note 16: Related party transactions

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

Isobel Garner (Non-Executive Chair of the Wales Audit Office Board) is married to the Chief Executive of a local council which is audited by the Wales Audit Office. This is disclosed for transparency although it does not meet the definition of a related-party transaction.

During the year, no other 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 (page 69).

Note 17: Events after the reporting period

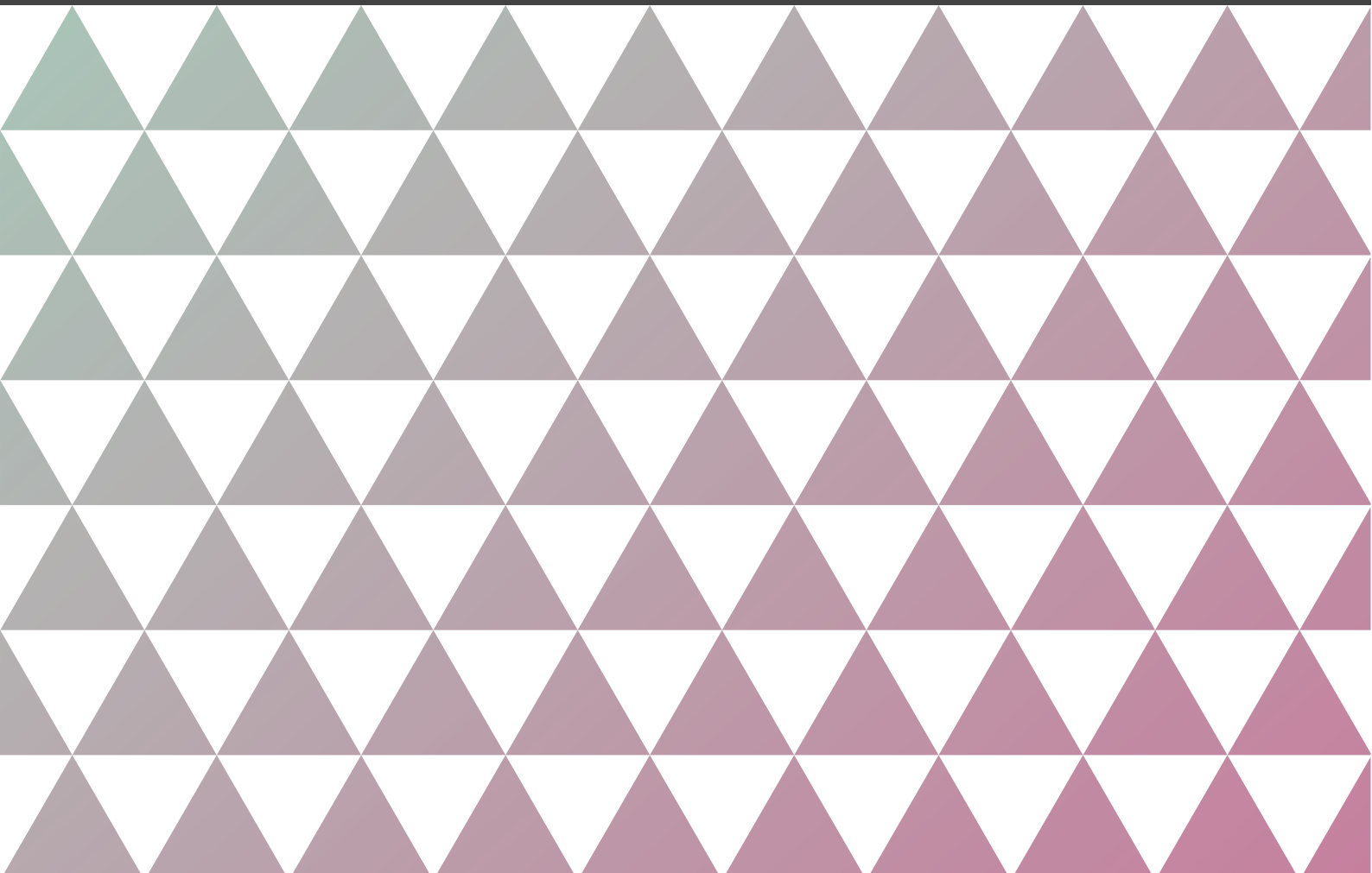
The Wales Audit Office works to annual funding arrangements by statute. Although voted funding has only been approved for nine months after the date of signing these statements, an Estimate for the 2018-19 financial year will be presented to the Finance Committee of the National Assembly in the autumn of 2017-18 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 12 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 2016-17

Audit work carried out 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
Limited assurance audits of over 740 town and community councils

CERTIFICATION OF GRANT CLAIMS AND RETURNS

21 schemes worth approaching £3 billion and involving around 360 individual claims

IMPROVEMENT AUDITS AND ASSESSMENTS

22 unitary authorities (including themed reviews of financial resilience and governance)
3 fire and rescue authorities
3 national park authorities

STUDIES COMPLETED OR SUBSTANTIALLY COMPLETED

Local government financial statements 2015-16
Financial management and governance in community councils 2015-16
Local authority funding of third-sector services
Savings planning in local authorities in Wales 2016-17
Charging for services and generating income by local authorities
Community safety in Wales

ONGOING STUDIES

Strategic commissioning of learning disability services by local authorities
Improving wellbeing through housing adaptations
How local government manages demand (homelessness services)

Audit work carried out at NHS bodies

AUDITS OF ACCOUNTS

7 local health boards
3 NHS trusts
Local health board summarised accounts
NHS trusts' summarised accounts

STUDIES COMPLETED OR SUBSTANTIALLY COMPLETED

NHS Consultant Contract (follow-up study)
Emergency ambulance services commissioning
arrangements
Radiology services

LOCAL PERFORMANCE AUDIT WORK

7 local health boards
3 NHS trusts

ONGOING STUDIES

GP Out-of-hours services
Discharge planning
Primary care services

STRUCTURED ASSESSMENTS

7 local health boards
3 NHS trusts
All-Wales summary of performance reporting
to local health boards

Audit work carried out at central government bodies

WELSH GOVERNMENT ACCOUNTS

Welsh Government consolidated accounts
Non-domestic rating account
Welsh Consolidated Fund account
Whole of Government Accounts
Approval of payments out of the Welsh Consolidated Fund

NATIONAL ASSEMBLY FOR WALES ACCOUNTS

National Assembly for Wales Commission
Assembly Members Pension Fund

ACCOUNTS OF WELSH GOVERNMENT SPONSORED BODIES

Arts Council of Wales
Arts Council of Wales Lottery Fund
Social Care 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

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

Audit work undertaken for consideration by the Public Accounts Committee

VALUE FOR MONEY STUDIES, SUMMARY REPORTS OR REACTIVE EXAMINATIONS COMPLETED

Follow-up outpatient appointments - briefing for the NHS Planned Care Programme Board

Welsh Government funding for Kancoat Ltd

Coastal flood and erosion risk management

National Fraud Initiative 2014-15

Welsh Government investment in rail services and infrastructure

Hospital catering and patient nutrition, a review of progress - memorandum for the Public Accounts Committee

Achieving improvement in support to schools through regional education consortia (follow-up) – memorandum for the Public Accounts Committee

Preparations for the implementation of fiscal devolution in Wales

Governance review of the National Library of Wales

Managing medicines in primary and secondary care

Governance challenges posed by indirectly provided publicly funded services in Wales - discussion paper

Welsh Government oversight of further education colleges' finances and delivery

ONGOING VALUE-FOR-MONEY STUDIES

21st century schools and education programme

Public procurement landscape review

Waste management (waste prevention)

Waste management (municipal recycling)

Implementation of the NHS Finances (Wales) Act 2014 (integrated medium-term planning)

Supporting People programme

NHS Informatics

Access to public services with the support of specialist interpretation and translation

Business finance

Waste management (procurement of waste treatment infrastructure)

ONGOING REACTIVE EXAMINATIONS

The Welsh Government's initial funding of the Circuit of Wales project

Welsh Government financial support for Carmarthenshire Energy Ltd

SUMMARY REPORTS IN PROGRESS

Emergency ambulance commissioning arrangements

Good practice work

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
Making a reality of early closure
Public services working in partnership for better health and wellbeing
Designing effective services for frequent users
Making services more accessible to people who do not speak English or Welsh

GOOD PRACTICE GUIDES DELIVERED

Checklist for local authorities on effectively engaging and working with the third sector
Leaflet for NHS board members to support their ongoing scrutiny of orthopaedic services

SHARED LEARNING WEBINARS DELIVERED

Financial management and governance in community councils
Benefits realisation
Record keeping: setting the record straight
Open data

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

Engagement and joint working activity

JOINED-UP DELIVERY

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake follow-up 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 Integrated Reporting Network

Public Audit Forum

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards and Police and Fire Panels

Inspection Wales initiative

DWP Housing Benefit and Welfare Reform UK Inspectorates liaison group

Financial Reporting Council Public Sector Advisory Group

Participation in NHS Escalation and Intervention Protocol with Welsh Government and Healthcare Inspectorate Wales

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 Revenue Authority Implementation Programme Board

Finance Minister's Welsh Tax Forum

CSSIW Local Authority Inspection Framework Board

Local Government Data Unit Board

NHS Wales Efficiency, Healthcare Value and Improvement Group

Public Appointments Working Group

APPENDIX 2: PROGRESS MADE DURING THE YEAR TOWARDS ACHIEVING OUR THREE-YEAR PRIORITIES

Local government audit work

Three-year 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	2016-2019	On track	Our 2016-17 programme of local-government performance audit included three thematic reviews which will inform all-Wales reports scheduled for delivery in spring and autumn 2017. The three reviews covered governance arrangements, financial planning and change programmes.
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	2016-2018	On track	We are in the early stages of developing and testing our approach to audit and assessment in response to the Auditor General's new duty under the Well-being of Future Generations Act. This work is likely to lead to new approaches to examining the effectiveness of governance arrangements and to a more integrated approach to audit. We will consider the implications for planning and reporting local audit work as we develop our approach.
Prepare, including through working with relevant stakeholders, for the introduction of faster closure of local-government accounts	2016-2018	On track	2015-16 accounts opinions for three unitary authorities were delivered much earlier than in previous years. Post-project learning from this work will serve to inform the planning and delivery of 2016-17 audits.
Develop and pilot an outcome-based approach to grant certification for local government accounts	2016-2019	On track	Development work on our new approach is complete and the approach was piloted at Wrexham and Neath Port Talbot Councils during the autumn of 2016. An evaluation of the pilot has now been concluded, and actions are in hand to roll-out the new approach at all councils over the next two financial years.
Provide more informative reporting on the effectiveness of governance arrangements through our modified framework for the audit of town and community councils	2016	Complete	We applied our modified framework to the audit of 2015-16 accounts, and published our first summary report on the effectiveness of governance arrangements in January 2017.

NHS audit work

Three-year 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	2016-2017	Complete	Through our 2016 Structured Assessment work at NHS bodies we undertook comparative assessments of Board Assurance Frameworks, IMTP approval/monitoring arrangements, and Finance Report contents. The areas selected for comparative examination were chosen following engagement with the all-Wales Board Secretary group and individual NHS bodies.
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	2016-2019	Complete	Wales Audit Office staff continue to participate fully in the escalation and intervention meetings involving ourselves, HIW and Welsh Government officials. These arrangements are now well established and part of our routine engagement with the Welsh Government and Healthcare Inspectorate Wales.
Publish an audit review of the initial operation of three-year NHS integrated delivery plans	2016-2017	On track	Fieldwork is complete on this review and the Auditor General's report will be published before the 2017 summer recess. We focused primarily on the financial benefits of integrated medium-term planning identified in the Explanatory Memorandum to the NHS Finances (Wales) Act 2014, and also took account of the wider planning issues involved in linking financial and service plans.

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	2016 and each year thereafter	Complete	We published our first annual overview report on the results of audit work undertaken within the central-government sector in early spring 2017.
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	2016-2018	On track	Work on this priority is being undertaken in conjunction with our development of the Auditor General's approach to the discharge of 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	The Auditor General published his initial preparedness review in autumn 2016, and we gave oral evidence to the Finance Committee on our findings in March 2017. 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 developing our responses to the implications of Ministerial policy decisions and associated UK/Welsh legislation as these emerge.

Audit work for consideration by the Public Accounts Committee

Three-year 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	Complete	We have made efforts in 2016-17 to raise awareness and provide training to staff on the importance of conveying audit findings more concisely and with greater visual impact. In particular, this has served to help ensure that our design content can be adapted for social media channels. In the last few months we have secured accreditation for the accessibility of our website, and 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 have adopted a more co-ordinated approach to reviews of the delivery of housing adaptations and discharge planning by aligning the timetables for information and data requests and undertaking joint fieldwork interviews to identify issues at the interface between housing and health and ensure that we feed back consistent messages to NHS bodies, local authorities and registered social landlords. We are currently consulting on future topics that examine whole systems across service providers.
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	Complete	The new Public Accounts Committee is now well established. During the course of 2016-17, the Auditor General and Wales Audit Office staff: • participated in the Committee's stakeholder engagement event; • delivered induction training for Committee members; • provided extensive briefing on our work programme; and • provided advice to the Committee as part of its ongoing review of its working methods, including different ways in which our staff could support the scrutiny work of the Committee.

Three-year priorities	When	Progress	Commentary
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	Complete	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. The memorandum that we prepared for the Public Accounts Committee in July 2016 has been shared with the wider committee support teams, and Wales Audit Office staff have taken forward personal contact with clerks and researchers to develop relationships following the establishment of the new committee structure and as the committees determine their own work programmes.

Good practice work

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	2016 and each year thereafter	On track	We captured pledges to action at the end of each of the shared learning events held in 2016-17. We also extended our piloting of the 'Randomised Coffee Trials' approach, through which we facilitate follow-up conversations between delegates on how they are implementing their pledges.
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	Complete	Through our good practice work in 2016-17, we 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 were also reflected.
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	Through our work on Behaviour Change Festivals, held in partnership with Bangor, Swansea and Aberystwyth Universities, we were successful in promoting the establishment of new networks, particularly involving the academic sector. We were also involved in 2016-17 in establishing new digital communities, working in partnership with the Office of National Statistics.
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 year, staff from our financial audit, performance audit and corporate enabler teams were involved in the delivery of shared learning activities, including in relation to internal audit, faster closure of local-government accounts, digital complaints handling and behaviour change.

Engagement and joint working activity

Three-year 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 have reported on how we performed in this area in 2016-17 in the Governance Statement .
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	The Auditor General met with a number of individuals to explore and discuss in more detail issues raised in their responses to our stakeholder survey in early 2016-17. Our Shaping Accountability for Future Generations event held in November also generated large volumes of feedback from senior delegates across the public sector on the Well-being of Future Generations Act. This feedback is now being considered by our audit teams as we continue to work on our new audit approach over the next few months.
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. In November 2016, the Auditor General and the Board also jointly hosted a reception in Abergele for North Wales stakeholders.

Three-year priorities	When	Progress	Commentary
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 latest NFI exercise commenced 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	Through the course of the year, Inspection Wales partners have collaborated in briefing new Assembly Members and in showcasing the role and work of the four organisations under an Inspection Wales banner at the Royal Welsh Show. We have also undertaken scoping work on a first national thematic review to be undertaken in collaboration with Inspection Wales partners.

Our governance and leadership

Three-year 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 provided an interim report to the Board in February 2017. The team is due to produce its final report in June 2017.
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 was selected to work with the Wales Audit Office Senior Leadership Team on strengthening leadership capability, with the first session held in October 2016 and further sessions scheduled in 2017-18. Continued focus on simplifying decision making and articulating expected values/ behaviours for all. Towards the end of 2016, staff focus groups were used to develop a set of agreed behaviours and values.
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. In addition, the Board approved principles which now underpin our workforce planning processes, in June 2016.
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 Wales Audit Office is implementing the action plan developed from an independent evaluation of its effectiveness completed in September 2016. As part of that work, the Board will be considering how it can best measure its impact on an ongoing basis. The Board is working with management to develop the story of its progress to date, sharing lessons learned, highlighting the challenges and describing future ambitions.

Three-year priorities	When	Progress	Commentary
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	Throughout 2016-17 we worked with the other UK audit agencies to further develop our use of benchmarking to assess the performance of our corporate services. In addition, we awarded a contract to an external consultant to undertake an assessment of our approach to measuring and reporting on the impact of our work, and of how we might further increase our impact.

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	2016-2019	On track	Early in the year we revisited and updated our three-year ICT plan; a summary of the revised plan was published in our Estimate for 2017-18 , which was subsequently approved by the National Assembly's Finance Committee. The approved funding will support a range of work, including extending our use of the cloud and laptop and desktop videoconferencing, and replacing our telephone and switchboard system.
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 commenced 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. Our approved Fee scheme for 2017-18 incorporates a widely-supported cash-terms freeze in our fee rates. Savings from staff vacancies in 2016-17 are currently being used to fund a voluntary severance scheme which will reduce future staff costs in line with workforce planning principles.
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	On track	We undertook work in 2016-17 on quantifying the impact of the current regime, both in terms of the cost of the necessary administrative processes, and the knock-on behavioural impacts, and are now in the process of finalising our draft proposals. We will shortly be consulting with stakeholders on our proposals and will present the outcomes of that consultation to the Finance Committee.

Three-year priorities	When	Progress	Commentary
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 the best use of the remainder of our estate.
Demonstrate our corporate social responsibility through our work on: • improving environmental stewardship; • promoting the wellbeing 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	Commentary on the progress we have made in these areas is provided in the Performance analysis section of this report.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

We welcome telephone calls in
Welsh and English.

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

Rydym yn croesawu galwadau
ffôn yn Gymraeg a Saesneg.

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru