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**Reference:** IG19001/AC073/caf

**Date issued:** 10 January 2019

Annwyl Llyr

## Finance Committee Report on the Wales Audit Office

Further to our letter of 27 November, we are writing to set out our proposed responses to the Committee's recommendations on our statutory reports.

We address each of your recommendations in turn, below:

### **R1 The Committee is content with the Annual Report and Accounts 2017-18.**

We welcome the Committee's position.

### **R2 The Committee recommends that the Wales Audit Office provides an update on the outcome of the post-project learning exercise undertaken by the Remuneration and HR Committee in relation to early exit payments.**

The post-project learning exercise was reported to our Remuneration and HR Committee in July 2018, including learning points from that Committee itself. The Remuneration & HR Committee agreed recommendations focused on enhancing the **process** for future schemes, with no issues raised in relation to the value for money of decisions made. The recommendations included:

- Allowing sufficient time for early exit schemes to form part of the established business cycle, so that decisions can be made within that cycle rather than in addition to it;
- Ensuring the criteria for early exits is stated in the HR policy;
- Strengthening the business case pro forma and involvement of finance & HR in the development of business cases; and
- Improving communications around the terms of the scheme and for unsuccessful applicants.

All of these recommendations are being implemented in the scheme we are currently running, and we will undertake a further post-project learning exercise on conclusion of that scheme.

**R3 The Committee recognises the work undertaken so far to address the gender and ethnicity pay gaps and recommends that further progress updates are provided to the Committee**

In September 2018, the Board's strategic discussion on equality and diversity concluded with a very strong view that there are moral, legal and business benefits to having a more diverse workforce at the Wales Audit Office. We have a number of actions in hand, within our People Strategy Delivery Plan, and agreed further actions around more targeted and focused recruitment so that we can increase our representation from currently underrepresented groups. We will be making specific reference in job adverts to the fact that we invite and we welcome expressions of interest from people from the black, Asian and minority ethnic communities and from people wanting to work part-time or to job share. We will be offering guaranteed interviews to candidates that meet the minimum criteria and who are from underrepresented groups.

We will provide further updates through our annual equality reports.

**R4 The Committee recommends that the Wales Audit Office gives further consideration to signing-up to Chwarae Teg's FairPlay Employer service.**

We have since met Chwarae Teg and a business case to sign-up is now being drafted. We plan to have joined by the end of March; we will provide an update through our Annual Equality Report 2018-19.

**R5 The Committee notes RSM's recommendation that any amendments to the Public Audit (Wales) Act 2013 should also consider the definition of cost within the context of indirect cost allocation. The Committee will be considering proposals to amend the Public Audit (Wales) Act 2013 in the New Year and recommends that the Auditor General gives further consideration to this and provides an update to the Committee.**

RSM's recommendation is in relation to the way the Wales Audit Office allocates overhead costs to audit work that is contracted out. We consider our methodology to be reasonable and have not identified any stronger alternatives; nor have our auditors.

We are keen to work with the Finance Committee in progressing our 'case for change' to simplify the requirements of the Public Audit (Wales) Act 2013, including replacing the "no more than full cost" rule with a requirement to set fees so as to broadly breakeven. Under this proposal, the Wales Audit Office would have to ensure that the total sum of the fees charged for all work (except work by agreement or tendered), taking one year with another, is broadly equivalent to the expenditure in connection with that work.



We do not propose defining in legislation how our costing model should work, but it is an appropriate assurance mechanism for our external auditors to report on the reasonableness of the cost allocation model we use.

We stand ready to support the Committee's deliberations on this matter.

**R6 The Committee recommends that the Auditor General provides assurances that effective internal controls are in place to avoid a recurrence of overpayment of fees, as raised by RSM, and an update on this should be provided in the Annual Report for 2018-19.**

We undertook a post-project learning exercise to identify what went wrong with our grants audit supplier in this instance and how to avoid a recurrence in future. The outcome has been a shift from placing reliance on the firm's quality assurance arrangements to one of closer management by the Wales Audit Office, so that the same quality assurance arrangements are now applied to all work carried out on behalf of the Auditor General. As part of this, we have set out internal reporting lines in respect of grants work. In future, our grants manager will report issues to the contract manager and the quality manager and consider for escalation to the Assistant Auditor General.

We will provide a statement on this in our Annual Report & Accounts 2018-19.

**R7 The Committee recommends that the Wales Audit Office updates the Committee on the impact of any increase in employer pension contributions or pay and price pressures as soon as they are known.**

Our current estimate of the additional, unbudgeted cost is in the order of £750,000 in relation to the increase in employers' pension contributions though we await confirmation of precise contribution levels. We will update the Committee during the year, once the position is clearer.

**R8 The Committee recommends that the Wales Audit Office clarifies the potential need for additional funding in 2019-20 in the event of there being no transitional agreement with the EU.**

We are grateful for the Committee's support of the additional £85,000 contribution in our Estimate towards our work on Wales' preparedness for withdrawal from the EU. If the UK enters into a transition period, as set out in the proposed Withdrawal Agreement, then we anticipate that no Supplementary Estimate will be needed.

However, we do think it is highly likely that a 'no deal Brexit' on 29 March 2019 would require a significantly enhanced level of audit attention and resources during 2019-20. In that scenario, we would re-focus our Brexit-related resources and possibly re-prioritise other work.



We are not currently planning on the basis of seeking a Supplementary Estimate and so only if we found our revised resourcing demonstrably insufficient and were unable to absorb further costs from within our budget, would we contemplate raising the matter with the Finance Committee. Nonetheless, the uncertainties associated with a 'no-deal Brexit' are such that we thought it both prudent and appropriate to signal to the Committee at this early stage that the need for a Supplementary Estimate during 2019-20 cannot be ruled out. Once we know the actual terms of the UK's 29 March 2019 withdrawal we will be able to better identify and assess the resultant audit risks and their implications.

We will continue to liaise with the Public Accounts Committee and other relevant Assembly Committees in relation to any potential impacts for their work programmes.

**R9 The Committee recommends that the Wales Audit Office provides further details on the estimated value of income that will be lost as a result of no longer undertaking EU grants audit activity.**

Our Medium Term Financial Plan forecasts an expected reduction of £750,000 in relation to audit work on EU Agricultural Funds which we expect will come to an end in 2021-22 in line with the end of the current grant programme. We are not anticipating that any domestic policy which could replace these grants would require the same level of audit. We are therefore planning on the basis that this income stream will largely, or wholly, disappear and are taking appropriate steps to manage that change smoothly, for example, through making specific fixed-term appointments to resource the work.

In the event of a 'no deal Brexit' on 29 March 2019, our audit work would continue to the end of June 2019, thereafter leaving a significant income exposure risk of circa £600,000 in 2019-20. To mitigate this risk in part, we have an agreement with DEFRA to cover extra committed costs, for example, for specific unavoidable redundancies. We would also look at realigning internal resources and revising our wider recruitment and staff replacement plans for next year. However, it may not be possible to fully cover the shortfall in that first year in the event of no deal.

**R10 The Committee recommends that the Wales Audit Office provides a breakdown of the projects and savings delivered as part of the "Smarter, Leaner, Better" programme.**

We propose including this in our Annual Report & Accounts in future years, to clearly demonstrate the linkage back to the planning assumptions we state in our Estimates for the year.

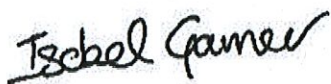
**R11 The Committee recommends that the Wales Audit Office provides details of the savings and efficiencies realised from its investment in Data Analytics in future estimates and annual report.**

Though it is too early in the programme to be able to say with confidence what efficiencies can be realised, the Data Analytics benefits realisation plan does have

cost savings and efficiencies as one of the benefits we intend to deliver. We will report on this in our Estimate for 2020-21 and future Annual Reports & Accounts.

We trust the above provides the Committee with the assurances it is seeking but do please come back to us if you have any follow-on queries.

We very much look forward to working with you and the Committee.



**ISOBEL GARNER**  
Chair, WAO Board



**ADRIAN CROMPTON**  
Auditor General for Wales

cc: Bethan Davies, Clerk to the Committee