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WALES AUDIT OFFICE
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International Peer Review of the Wales Audit Office – Update to the Public Accounts Committee

International Peer Review of the Wales Audit Office –
Update to the Public Accounts Committee

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The Peer Review found that the Wales Audit Office had established a successful track record in the first four years since being created in 2005, but that it faced a watershed because the context for public services was changing significantly.

This report provides the Public Accounts Committee with an update on the Wales Audit Office's progress in addressing the recommendations of the Peer Review. Significant progress has been made, with eight of the 19 recommendations having been fully addressed. Progress has also been made with all other recommendations, but we recognise that substantial work is still required in respect of three recommendations where there are medium to longer-term objectives which still have to be fully addressed.

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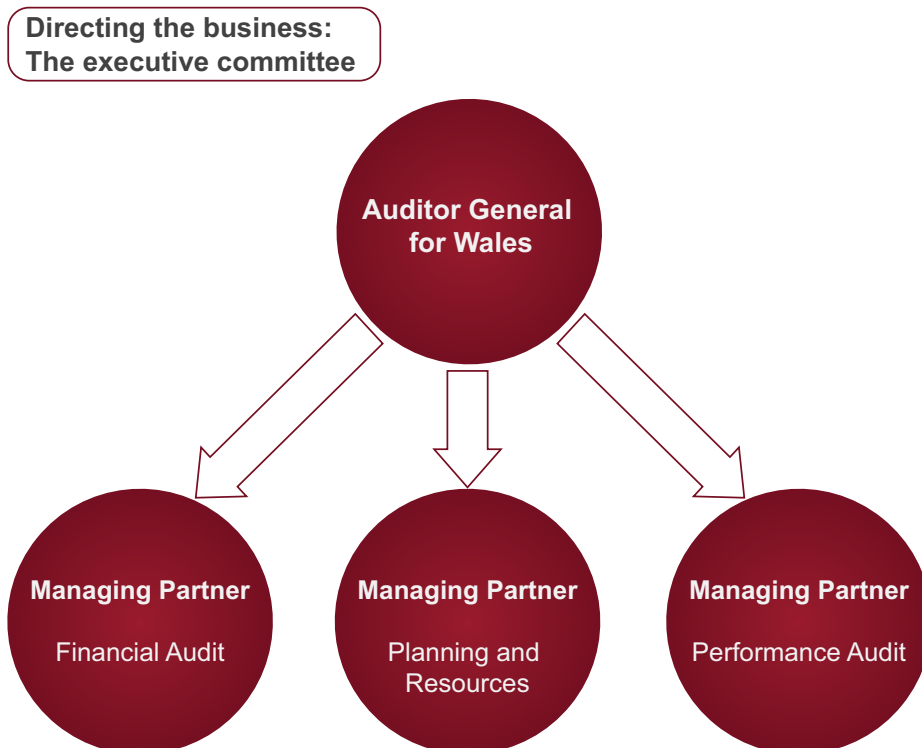
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Summary

- 1 In October 2009, the then Auditor General published the report of an International Peer Review (the Peer Review) of the Wales Audit Office and his response to it ([click here to read the Peer Review and Auditor General response](#)). The Peer Review, the first such exercise involving one of the UK audit offices, drew upon a self-assessment undertaken by the Wales Audit Office during the first quarter of 2009. It was also followed by two further internal reviews which focused on two of the key risk areas highlighted by the self assessment: the Human Resources (HR) function and our approach to resourcing, programming and project management.
- 2 The Peer Review concluded that the Wales Audit Office and its staff were at a watershed. It found that the Wales Audit Office had a successful track record during the organisation's first four years and had established itself as credible and independent. In its next stage of development, the Peer Review said that it faced a number of major challenges and opportunities which made it essential to review its progress and make a number of important changes to remain fit for the future. The key issues were both short-term and long-term in nature, and the importance of addressing them has become even more acute as a result of the recession and the significant financial constraints on public sector expenditure.
- 3 Following the self-assessment, the then Auditor General and the Wales Audit Office Partners went through a detailed organisational development programme supported by an external consultant. As a result of this work, the then Auditor General restructured the Wales Audit Office's management arrangements, in which the role of Chief Operating Officer, the previous Management Committee and Partnership Board were discontinued. In their place, an Executive Committee was established ([Exhibit 1](#)), comprising the Auditor General and three Managing Partners (Performance Audit, Financial Audit and Planning and Resources). Seven of the remaining eight Partners now report to the Managing Partners, and the Compliance Partner reports directly to the Auditor General.
- 4 The Managing Partners for Financial Audit and Performance Audit are responsible for managing these two audit practices. The Managing Partner for Planning and Resources is responsible for developing and implementing the Wales Audit Office Change Programme covering organisational development, and the implementation of the Peer Review's recommendations.
- 5 On 3 February 2010, the then Auditor General resigned unexpectedly. The Executive Committee took over the running of the Wales Audit Office until 10 February when the National Assembly nominated Gillian Body, the then Managing Partner for Performance Audit, as Auditor General on an interim basis while a permanent replacement was found.

Exhibit 1 – The Executive Committee



Source: Wales Audit Office Operating Guide – version 2

- 6** The Executive Committee recognised the need to make improvements to ensure that the Wales Audit Office was better placed to meet the challenges ahead and was determined that the sudden departure of the previous Auditor General should not disrupt progress with organisational development. Significant progress has been made over this interim period in meeting the recommendations of the Peer Review and our subsequent Change Programme, although more needs to be done. The new Auditor General, Huw Vaughan Thomas, has endorsed, and set out his intention to continue with, the Change Programme.
- 7** The Peer Review made 19 recommendations under the following headings:
- a** On the Wales Audit Office's services:
 - i** the design and content of work programmes to support improvement in Welsh public services;
 - ii** developing Performance Audit and Financial Audit practices;
 - iii** co-ordination with other audit and inspection bodies; and
 - iv** developing the Good Practice Exchange (GPX) and Shared Learning.
 - b** On governance, accountability and the Auditor General's wider regime.

- c On the management of the Wales Audit Office:
 - i organisational structure;
 - ii leadership and culture;
 - iii HR and people management;
 - iv strategy and programme management; and
 - v the Wales Audit Office's use of resources.

8 The following table summarises the 19 recommendations made by the Peer Review, alongside our progress in addressing those recommendations. We have used a traffic light system to illustrate the level of progress made, and the following definitions have been used:

- a **Green** – actions to address the recommendation have been implemented but work will need to continue in order to embed the change and to review whether further action is needed to adapt to changing circumstances;
- b **Amber** – work is underway to address the recommendation, but further work is still required to complete and embed change; and
- c **Red** – substantial work is needed to address the recommendation.

Recommendation summary		Progress to date	Report reference
On the Wales Audit Office Services			
The design and content of the work programmes to support improvement in the Welsh public service			
R1	The Wales Audit Office should develop a coherent overall programme and holistic approach to its delivery making the most of its cross cutting reach across public services in Wales.	● Green	1.1 – 1.10
R2	There is scope to improve the balance of the work programme to reflect the current economic climate and explore further mechanisms to enhance stakeholder engagement.	● Green	1.1 – 1.10
Developing Performance Audit and Financial Audit practices			
R3	The Wales Audit Office should develop an ex post quality review of performance audit reports.	● Amber	1.11 – 1.15
R4	Financial audit quality arrangements are sound but would benefit from greater emphasis on assessing the quality of audit judgements as well as procedural compliance.	● Amber	1.11 – 1.15
R5	Remedial action is underway and should continue to address the long standing problems with the quality and volume of in house IT audit services.	● Amber	1.11 – 1.15
Co-ordination with other audit and inspection bodies			
R6	The Wales Audit Office is well placed to take on lead responsibility for co-ordinating and streamlining inspection without compromising its independence.	● Amber	1.16 – 1.21
Developing the Good Practice Exchange and Shared Learning			
R7	The GPX has been an excellent initiative which now needs to be developed further.	● Amber	1.22 – 1.28
On governance, accountability and the Auditor General's wider regime			
R8	There is scope to enhance and strengthen the governance of the Wales Audit Office without restricting the Auditor General's crucial independence.	● Red	2.1 – 2.3
On the management of the Wales Audit Office			
Organisational structure			
R9	The Wales Audit Office is in the process of designing a top management structure to provide a directive style of leadership, incorporating a small and coherent Executive Committee.	● Green	3.1 – 3.7
Leadership and culture			
R10	The Wales Audit Office should further develop its approach to communicating with its staff by emphasising on-going, two way dialogue between leaders and staff.	● Green	3.8 – 3.14

Recommendation summary		Progress to date	Report reference
Human Resources and People management			
R11	The Wales Audit Office needs to resolve the outstanding HR issues around pay and progression.	● Green	3.15 – 3.23
R12	The Wales Audit Office needs to develop a workforce plan.	● Green	3.15 – 3.23
R13	The Wales Audit Office needs to develop a clear HR strategy.	● Green	3.15 – 3.23
R14	The Wales Audit Office should seek to achieve a more effective and influential HR department which plays a more strategic role within the office.	● Amber	3.15 – 3.23
R15	The role of the Home Team Manager is crucial to the organisational development of the Wales Audit Office and should be better supported.	● Amber	3.15 – 3.23
Strategy and Programme Management			
R16	The Wales Audit Office needs to increase the extent to which the strategy drives activity throughout the organisation by improving business planning processes and performance management.	● Red	3.24 – 3.27
The Wales Audit Office's use of resources			
R17	The Wales Audit Office needs to progress its work in relation to the zero-based exercise to cost financial audit, continue to streamline the auditing requirements, consider the extent to which its grant certification process represents good value for the public purse and establish robust arrangements for challenging budgets for studies and corporate projects.	● Green	3.28 – 3.36
R18	The Wales Audit Office needs to demonstrate a more systematic approach to demonstrating its own economy efficiency and effectiveness.	● Amber	3.28 – 3.36
R19	The Wales Audit Office should use its new management structure to provide momentum for improved programme management.	● Red	3.28 – 3.36

- 14** The next section of this report sets out in more detail the Wales Audit Office's progress against each set of recommendations.
- 15** We plan to provide a further update to the Public Accounts Committee within the next 12 months.

Progress against the recommendations

Part 1 – On the Wales Audit Office's services

The design and content of work programmes

We have published a range of reports since October 2009 that have provided more balanced coverage across different policy areas. In addition, the new Local Government Improvement Assessments and the NHS Structured Assessments have been designed to support the earlier identification of service failure and corrective action as required

- 1.1 The Peer Review recommended that the Wales Audit Office should seek a better balanced work programme, making more effective use of its cross-cutting reach, with greater prominence given to studies relating to efficiency and wider economic issues.
- 1.2 Since the Peer Review report, we have published a range of reports that have provided more balanced coverage across different policy areas than had been the case during the previous year when our published reports had featured a relatively high proportion of health related topics. Eight of the 14 national reports that have been issued since October 2009 have been pan-public-sector in nature, and have highlighted opportunities for improved public sector efficiency, or have emphasised the importance of tackling waste and fraud. The reports are listed in [Annex 1](#).
- 1.3 In March 2010, the Wales Audit Office launched a public consultation on study topics for the next few years. A substantial proportion of the topics in that consultation paper could be examined on a pan-public-

sector basis, or would inevitably involve work that cuts across organisational and sector boundaries. We received over 30 separate responses to the consultation, and we shall be using the results of the consultation exercise, alongside other intelligence, to determine future priorities for our national studies programme. We will report back to the Public Accounts Committee in November on the results of the consultation and our consequent plans for our future work programme of value for money examination.

- 1.4 The nature of the Wales Audit Office's services is changing significantly in the Performance Audit practice. The implementation of the Local Government Measure has required the development and application of the new Improvement Assessment methodology in a challenging timescale. The first round of preliminary corporate assessments was completed at the end of June 2010, and all reports have been issued to local authorities. The Wales Audit Office will acquire extensive feedback on the impact and effectiveness of the approach from local government bodies involved, at both member and officer level within local authorities and the Assembly Government, which it will use to inform and refine its methodology.
- 1.5 The Wales Audit Office has also introduced a 'Structured Assessment' into its local performance audit work at Local Health Boards and NHS Trusts in Wales. The Structured Assessment allows auditors to not only examine the existence of corporate arrangements but also to comment on the

effectiveness of those arrangements. The approach to Structured Assessment work is intended to evolve over the next two to three years to align to challenges faced by the NHS in Wales post reorganisation, and within the current financial climate. In year one, the approach has focused on assisting NHS bodies develop 'firm foundations' in terms of financial management and corporate governance arrangements.

- 1.6** The teams carrying out work on both the Local Government Measure and the NHS Structured Assessments have been developed in such a way as to facilitate cross cutting work across defined geographical areas, and their work has been designed to support the earlier identification of corporate or service failures and to identify corrective action as required. The findings from our Improvement Assessment and NHS Structured Assessment work involve public reporting to make the results from our work more accessible to the public.
- 1.7** We continue to deliver a full programme of local performance audit work in health bodies. In addition to the work on Structured Assessments outlined above, we have recently completed reviews of the accuracy of waiting list data and adult mental health services. We are currently undertaking work including reviews of hospital catering; securing the benefits from the NHS consultant contract; benchmarking on ward staffing resources; operating theatre utilisation and day surgery.
- 1.8** The Peer Review recommended that the strategy of the Wales Audit Office needed to drive activity throughout the organisation. In line with our strategic objectives, we have designed and delivered work aimed at

supporting the NHS re-organisation process in Wales. This work involved close engagement with the national programme that managed the NHS change process. In parallel to this, auditors also undertook real time reviews of the local transition arrangements in each health locality in Wales. This work highlighted any concerns and gaps in arrangements to local transition boards as they emerged, and provided support to inform the organisational development agenda of the new health bodies.

- 1.9** The Wales Audit Office remains committed to the promotion of improvement through the use of its GPX web pages and Shared Learning approach. Since the publication of the Peer Review, we have published new GPX materials on Innovation and Efficiency, Land and Buildings Management and Timely Financial Reporting. A series of Shared Learning workshops on timely financial reporting and innovation and efficiency are planned for autumn 2010. Following on from the success of the 2009 fleet management shared learning conference, a 'grey fleet' seminar will be held on the 21 October, focusing on the liability issues and efficiency gains in relation to the management of personal vehicles used for business purposes by public service employees.
- 1.10** The Executive Committee has also allocated responsibility for the GPX to a single Partner with collective responsibility being held at Executive Committee level. The strategy for Good Practice has been reviewed and updated to ensure it fully addresses the points raised in the Peer Review around mainstreaming good practice into Wales Audit Office work and securing sustainable funding for this important work.

Developing Performance Audit and Financial Audit Practices

The Managing Partner Performance Audit and Managing Partner Financial Audit have developed their respective audit practices

- 1.11** The Peer Review recommended that the Wales Audit Office should:
- a** establish a system of ex-post quality review of performance audit reports;
 - b** improve the financial audit quality monitoring systems with particular focus on the quality of audit judgements; and
 - c** improve the quality and volume of in-house IT audit services.
- 1.12** The Managing Partner Performance Audit and Managing Partner Financial Audit have both developed delivery and development plans that consider both the day-to-day activities which are required to run the business and set out their respective visions for their delivery streams, identifying the required changes to their practices to meet future challenges. The delivery and development plans set out the characteristics of a good audit practice together with commentaries on the extent to which they currently meet those characteristics. Where gaps or weaknesses have been identified they have set out the action they will be taking to ensure that they demonstrate and deliver high levels of performance.
- 1.13** The Wales Audit Office is currently piloting a system of reciprocal ex-post quality review of performance audit reports in collaboration with the National Audit Office (NAO), Northern Ireland Audit Office (NIAO) and Audit Scotland (AS). It has been provisionally agreed that a sample of reports from each organisation will

be reviewed by peer organisations using agreed criteria. Plans are in place to finalise arrangements in October 2010. In addition to these developments, the Wales Audit Office's editing and screening team continues to take a key role in delivering a quality control process on all our performance and financial audit reports and products.

- 1.14** The Wales Audit Office is currently upgrading its approach to Financial Audit in response to the new clarified International Standards for Auditing published by the Auditing Practices Board. The upgraded approach is scheduled for launch in October 2010. This will include the delivery of a new Financial Audit Delivery Manual coupled with mandatory training events for all financial audit staff. Alongside these developments, the practice's quality monitoring processes have been upgraded not only to reflect the changes in professional auditing standards but also to ensure greater emphasis is placed on assessing the quality of audit judgements.
- 1.15** The Peer Review highlighted longstanding problems with the quality and volume of in-house IT audit services. Notwithstanding the comments in the Peer Review, new management arrangements had already been put in place before the Peer Review and were already bearing fruit. Accountability for Information Management and Technology (IM&T) Audit now rests with the Managing Partner Financial Audit and plans for the service feature prominently in his delivery and development plan. The Wales Audit Office has developed an IM&T Audit Business Plan 2010/2013 which sets out a challenging agenda to develop the IM&T Audit service. The IT audit team have successfully delivered their annual programme of work. However, recent staff changes has led to a significant reduction in IM&T Audit resources which needs to be addressed going forward.

Co-ordination with other audit and inspection bodies

The Wales Audit Office is taking a key role in the co-ordination of work with other audit and inspection bodies but further work is still required

- 1.16** The Peer Review suggested that the Wales Audit Office was well placed to take a lead responsibility for co-ordinating and streamlining inspection without compromising its independence.
- 1.17** In this respect, the Wales Audit Office continues to play a leading role in the co-ordination of audit, inspection and regulatory activity within the Welsh public service. The Wales Audit Office, along with Estyn, Care and Social Service Inspectorate Wales (CSSIW) and Health Inspectorate Wales (HIW) have formed a Strategic Collaborative Group to help shape and inform collaborative working. This group has overseen the appointment of a joint inspectorate project manager to further develop joint working arrangements and build on the progress that has already been made in aligning activity, joint planning, sharing information and avoiding duplication. The Wales Audit Office, Estyn, CSSIW and HIW have also established a national studies working group to ensure that opportunities for joint working and other forms of collaboration are fully considered as a part of the development of each organisation's forward programme.
- 1.18** In addition to the joint post of co-ordinator, the Wales Audit Office, Estyn, CSSIW and HIW each have a secondee from the Assembly Government's Statistical Directorate. These secondees work as a team to support more effective information sharing across the external review bodies. They also help identify

where external review bodies can make better use of central resources of information thereby avoiding unnecessary data request to public sector bodies.

- 1.19** The introduction of the Local Government Measure, for which we have a statutory responsibility to audit, has prompted a great deal of collaborative activity. Senior managers from the Wales Audit Office, CSSIW and Estyn have been meeting regularly to align methodologies and to ensure that inspection activity and findings can inform the Wales Audit Office's assessments of local government under the Measure. Local teams from the Wales Audit Office now meet on a regular basis with CSSIW and Estyn colleagues to share findings and views.
- 1.20** Training and awareness raising sessions have been delivered by the Wales Audit Office to teams from CSSIW and Estyn on the new Wales Audit Office approach and methodology, and how these bodies can work together to inform local government assessments. For the first time, in June 2010, a local government summit, 'Working together to drive improvement', was held between the Wales Audit Office, Estyn and CSSIW. As a result, an action plan is now being developed to further improve joint working. The next of these biannual events is to be held in December 2010.
- 1.21** The Wales Audit Office has continued to support the Concordat for Health and Social Care and has been an active participant in discussions on the future direction for Concordat activities. The Wales Audit Office works closely with HIW to ensure that the forward work programmes of each organisation are co-ordinated, and duplication avoided. The HIW staff participate on external reference groups for Wales Audit Office health studies and vice versa. Dialogue has also

begun on how the Wales Audit Office's and HIW's annual assessment processes can be aligned to provide consolidated views on the performance of NHS bodies, supported by better self-assessment by the NHS bodies themselves.

Developing the Good Practice Exchange and Shared Learning

Good Practice Exchange and Shared Learning continue to be strengthened with clear organisational commitment and reporting lines

- 1.22** The Peer Review concluded that the GPX had been an excellent initiative which now needed to be developed further.
- 1.23** To ensure there is clear corporate commitment we have allocated responsibility for the GPX to a single Partner with collective responsibility being held at Executive Committee level. Since the Peer Review, we have launched new GPX pages on Innovation and Efficiency, Timely Financial Reporting and Land and Buildings Management.
- 1.24** In response to the recommendation that Good Practice and Shared Learning needed to be more effectively integrated into the mainstream work of the Wales Audit Office, we have included reference to Good Practice and Shared Learning in all our studies and major projects, including both the Local Government Measure and the NHS Structured Assessment.
- 1.25** The Wales Audit Office has an important role in supporting improvement and securing better value for money and we have continued our work to co-ordinate the development of the goodpracticewales.com internet portal which has been developed collaboratively with other key players in the Welsh public service. The website is now available and is being further developed to provide a single point of access to a wide range of examples of good practice across Welsh public services. Evaluation of the first phase of development has informed recent developments and has demonstrated what can be achieved at low cost by public sector bodies working collaboratively.
- 1.26** The value of the GPX has been recognised across Welsh Public Services and along with goodpracticewales.com is being promoted as the primary enabler of good practice and knowledge transfer by the Efficiency and Innovation Board (and related work streams) in their programme for 2010-2014.
- 1.27** We are developing more sophisticated measures of the impact and effectiveness of the GPX. While our earlier measures, for example, recorded the number of visits to the Wales Audit Office's website, we have recognised the need to develop more sophisticated metrics and narrative to better understand the impact and effectiveness of this part of our business. In particular, we are evaluating means of developing a more structured mechanism through which to collect narrative feedback about the GPX and goodpracticewales.com.
- 1.28** The Peer Review also identified the need to develop sustainable funding of the GPX. The model we use is based upon a small central enabling function which is resourced with National Assembly funding. Aside from promoting good practice, providing information and guidance and developing the skills and capability of Wales Audit Office staff, one of the activities of the central enabling function is to develop more secure sustainable funding. Our approach to GPX involves identifying and securing opportunities to fund good practice within studies and major projects through project budgets alongside other opportunities.

Part 2 – On governance, accountability and the Auditor General's wider regime

The new Auditor General has as one of his key priorities set out a clear vision for more effective governance arrangements of the Wales Audit Office, and will be discussing his proposed changes with the Public Accounts Committee at its meeting on 7 October 2010

- 2.1** The Peer Review noted that the current public services climate requires a rebuilding of trust in public services, and this is particularly relevant given the circumstances surrounding the resignation of the previous Auditor General and recent disclosures.
- 2.2** The Peer Review recommended a number of changes to the Wales Audit Office's governance structure, and the first priority of the new Auditor General is to strengthen the corporate governance arrangements operating in relation to his Office and the Wales Audit Office. A separate paper is being presented to the Public Accounts Committee at its meeting on 7 October outlining the changes proposed in more detail. Such arrangements will ensure greater external scrutiny and challenge of the Auditor General's management of the Wales Audit Office and his responsibilities as Accounting Officer, whilst maintaining his crucial independence to examine whatever subjects he chooses, and to make independent audit judgements free from political interference.
- 2.3** In the light of the events around the previous Auditor General's personal conduct, and use of IT equipment, we are undertaking further internal due diligence investigations into other aspects of his behaviour and decision-making while in office. This is an important process, not just for our own due diligence, but to demonstrate to the outside world that our internal processes are thorough and effective and to assure ourselves, as far as we can, that there are no further matters that need to be addressed.

Part 3 – On the management of the Wales Audit Office

Organisational structure

Significant improvements have been made to the Wales Audit Office's organisational structures. The creation of the Executive Committee and the launch of the Operating Guide have enhanced transparency and openness of decision making

- 3.1** The Peer Review recommended that following the implementation of a new top management structure, the Wales Audit Office should clarify roles and responsibilities throughout the organisation.
- 3.2** The Wales Audit Office had already commenced a process of organisational development following its own self-assessment exercise. The then Auditor General and all Wales Audit Office Partners participated in a series of organisation development workshops during the second half of 2009, which were facilitated by an external expert. These workshops finalised the process of changing the top structure of the Wales Audit Office, including the creation of the Executive Committee to provide greater clarity about decision-making and responsibility, and to provide more directive leadership.
- 3.3** Alongside the restructuring, Wales Audit Office Partners developed a new Wales Audit Office Operating Guide, known as Our Design for Excellence. This was launched in November 2009 and set out very clear operating principles and clarifies roles and responsibilities. Staff have been widely consulted about the content of the Operating Guide, with positive feedback received through a survey testing their views on the Guide. An updated version of the Operating Guide was produced in May 2010 which captures the key building blocks for our organisation in one complete document. From a leadership perspective, it clearly sets out:
 - a** our mission and vision;
 - b** what we will deliver through the transformed Wales Audit Office;
 - c** how we will work (including expected corporate behaviours); and
 - d** our five core values as an organisation.
- 3.4** Greater clarity has been provided to staff on accountabilities and responsibilities for the enabling functions (corporate services) in the Operating Guide, as well as for operational roles.
- 3.5** The Peer Review recommended that the Auditor General conduct a review of the new top management structure after six months. Given the change in Auditor General, the Executive Committee decided to postpone this review until the appointment of the new Auditor General, who now plans to conduct this review over the next few months.
- 3.6** The Peer Review also recommended that the Wales Audit Office review the role and composition of the Compliance and Technical teams. This review has been taken forward as part of the workforce planning review which covers the whole organisation.

3.7 The Peer Review recommended that the Wales Audit Office should seek to simplify the matrix structure. The creation of the Executive Committee and development of the Operating Guide have helped clarify the operation of the Wales Audit Office approach to staff deployment, though this will be reviewed by the new Auditor General. It is however important that the Wales Audit Office, consistent with many professional service organisations delivering project work, retains the scope to deploy its staff flexibly and make the best use of the available skills. We continue to work diligently to improve the processes and systems that underpin staff deployment, especially around resourcing and programme management but recognise there is still much to do in this area.

Leadership and culture

The Operating Guide has assisted in delivering the leadership developments highlighted in the Peer Review, as well as providing greater clarity on many fundamental aspects of the Wales Audit Office's operations

- 3.8** The Peer Review recommended that the Wales Audit Office further develop its approach to communicating with its staff, especially through regular face-to-face briefings between home team managers (HTMs), who are responsible for staff welfare, development and performance.
- 3.9** Following the resignation of the Auditor General, the Executive Committee adopted a more open and proactive approach to communication with staff. This style of communication was particularly useful during this period of change and uncertainty, and very positive feedback has been received from staff.

- 3.10** A process of systematic cascade briefings for staff has also been set up where a corporate update (which includes HR, Change Programme, and performance assessment information) is cascaded to all staff through their HTMs. The briefing system requires HTMs to collect and share feedback from staff.
- 3.11** Monthly communication to all staff has been set up as part of the Change Programme. This communication focuses on the achievements of the Change Programme and outlines the priorities for the next three months. As part of this communication, considerable effort has been made to hold face-to-face discussions with staff to support not only communication but effective staff engagement. In addition, HTMs are provided with tailored briefing notes on a quarterly basis to cascade consistently key aspects of the Change Programme to staff.
- 3.12** We have also developed a set of corporate values. All staff participated in the development of the values through their team meetings. The final values were signed off by the Executive Committee in March 2010. We have undertaken a range of activities to launch, embed and encourage staff to work by the values including embedding the values into our performance management appraisal system.
- 3.13** The values form a central element of the Wales Audit Office's new staff development programme. Known as 'Ignite', the first phase of the programme is the roll out of a Leadership Development Programme to some 60 staff who spend a significant amount of time managing others within the organisation in three tranches between June and November 2010. The aims of the Leadership Development Programme are to enable managers to develop new skills, enhance existing skills and to help create

a culture of openness and inclusiveness. Early indications are that the programme is being well received by staff.

3.14 We published the results of our staff survey both internally and externally in July 2010 ([Click here to read the results of the staff survey](#)). The survey was developed in full consultation with both trade union partners and staff representatives. Staff have shown us that there are encouraging signs of improvement in many areas but there are still some areas that need to be addressed. We have now completed a management response and action plan and our Change Programme Board has responsibility for monitoring delivery and reporting progress to staff.

Human Resources and people management

Significant achievements have been made in relation to people management with the conclusion of the pay arrangements and the development of an operational workforce plan, but there is scope for further improvement

3.15 The Peer Review highlighted a number of challenges in terms of HR management within the Wales Audit Office, highlighting both historical issues and the challenging agenda required to resolve them. Particular issues highlighted by the Peer Review related to:

- a** resolving pay and progression issues as soon as possible;
- b** implementing a workforce plan;
- c** designing an HR strategy;
- d** re-aligning HR into a more influential and strategic role within the organisation;

- e** ensuring the effectiveness of the HTM role; and
- f** resolving the issues surrounding the high level of grievances and perceptions of bullying.

3.16 The Managing Partner for Planning and Resources is now responsible for the HR Department, giving it a clear voice and strategic input to the Wales Audit Office Executive Committee.

3.17 The Wales Audit Office has implemented a new system for pay and progression which was agreed by both trade unions through a ballot of their members in January 2010. This was a significant step forward for the Wales Audit Office and the successful implementation has been reflected in the staff survey results published in July 2010.

3.18 The Peer Review highlighted the need to develop a workforce plan. The workforce plan was developed against the background of the challenging external circumstances facing the Wales Audit Office which was likely to reduce the volume of work in the medium-term. The workforce plan is a valuable tool used to underpin management decisions which can now be refined as our planning assumptions become firmer. We have also developed a range of actions to ensure the Wales Audit Office has the right staff numbers and skills, as well as the flexibility to adapt to future service demands. This includes a voluntary severance scheme, and plans to deploy staff more flexibly across the organisation.

3.19 The Wales Audit Office has concluded the internal review of its HR department, which produced a clear action plan for improvement. Progress has been made in relation to strengthening arrangements in relation to confidentiality, improving quality control arrangements and performance management

arrangements and strengthening housekeeping and communications. It has also produced a strategy which is supported by an operational plan, and the size and structure of the department has been reviewed as part of the workforce plan.

3.20 However, there is still considerable work to be completed by the HR team particularly in respect of embedding the improvements that have already been secured. A specific element of the Change Programme is aimed at supporting the HR team in embedding the recommendations detailed in the action plan and meeting the objectives set out in the HR strategy.

3.21 One key area of concern is the level of grievances being dealt with by the HR team. The Wales Audit Office is currently investigating a number of grievances in line with its agreed processes. However, as part of the Change Programme, we are also reviewing the underlying causes, which are primarily to do with the job evaluation scheme, lack of transparency in decision making, and failure to follow due process. We are actively addressing these issues, and plan to use the number of grievances as a key metric of the success of the Change Programme.

3.22 The Executive Committee has launched an openness and transparency page on its external website. This page includes information which may be in the public interest, including the expenses of the Executive Committee, number of grievances received, and details of requests for information made under the Freedom of Information Act.

3.23 The Peer Review also highlighted the merit of the HTM role and its potential to add further value. Its fifteenth recommendation set out a number of ways in which the Wales Audit Office could better support the HTM role. Each HTM now has a nominated Partner to support their team and Partners are taking a more proactive role particularly in areas of training, communication and general support.

Strategy and programme management

A business delivery model is now in place supported by an Annual Operational Plan however more work is required in relation to corporate performance management, particularly in relation to how and when we report organisational performance both externally and internally

3.24 The Peer Review highlighted the need for the Wales Audit Office to become more strategically driven, particularly in terms of business planning and performance management.

3.25 We have developed a formal process of business planning, with an Annual Operational Plan and a framework for a rolling three year work programme which we are continuing to develop. The Plan provides greater clarity and more balanced work programmes for staff, delivers opportunities for development, and enables more effective project delivery. The Annual Operational Plan covers all delivery streams and enabler functions covering both audit and corporate projects. The business delivery model now in place at the Wales Audit Office is detailed in **Annex 2**.

3.26 We have made progress in terms of helping staff understand their own personal contribution to the delivery of the Wales Audit Office strategy, primarily through the production of the Annual Operational Plan. Both the financial audit practice development day and performance audit practice patch days cover key elements of our strategy and the relevant links in terms of what it means to individual staff at the Wales Audit Office. We have set up formal systems of cascade briefings for staff which focus heavily on the delivery of our strategy and translating the strategy into tangible tasks within individuals' work programmes.

3.27 We are in the process of establishing new corporate performance management systems recognising the weaknesses in the balanced scorecard which we have used during the early years of our existence. Our intended new system will be simple, collect information on a live basis and be available to all staff. It will focus on impact, the efficient and timely delivery of products and the achievement of our strategic objectives. We recognise the need to collect better data about our impact on public services to supplement data on the number of outputs and our financial performance. The design and implementation of a more robust performance management framework is a key strand of the Change Programme and is scheduled for completion in December 2010. In addition, further performance information has been included in the Annual Report and Accounts.

The Wales Audit Office's use of resources

Progress has been made in relation to the use of resources agenda, and we have exceeded our efficiency targets to date, but further work is still required to improve and demonstrate our own value for money

3.28 We recognise and accept the Peer Review's recommendations about the need for the Wales Audit Office to do more to demonstrate its own value for money. In the current financial climate, it is crucial that the Wales Audit Office plays its part in the wider drive for public sector efficiencies. To this end, one of our major priorities since receiving the Peer Review report has been to undertake a zero-based exercise to cost audit. From this exercise, we have developed a fees model which will inform the external fee setting process for the local government and NHS sectors. This exercise has also involved benchmarking the fees model with fees charged by the Audit Commission and Audit Scotland. In respect of the NHS, the application of our fees model to the new health bodies (following reorganisation of the NHS last year) has resulted in our total fees to the NHS falling by 15 per cent. This approach will ensure greater consistency in our fees and provide a more robust benchmark to challenge fee setting.

3.29 The Auditor General continues to have a statutory duty to make certification arrangements for grant claims if requested to do so by a relevant body. However, we recognise the Peer Review's concern about the extent of external audit of grants and have worked closely with the Assembly Government's own review of grant funding. We are developing a new strategy for grants

work which recognises opportunities to improve grants management – a need clearly evident from our very recent reports on Cymad Cyf and the Plas Madoc Communities First partnership.

3.30 Our new grants strategy will clarify our service in terms of grants and we will consult on any future de-minimis or threshold of our work to certify grants. The number of schemes in our work programme has already begun to reduce from 50 to 41. The number of grant claims certified in 2009-10 fell to 860 (which represent a 35 per cent decrease from the 1,331 certified in 2008-09). There was an associated reduction in our fee income - which fell to £2.3 million (25 per cent less than for the previous year, giving a saving of around £750,000 to local authorities). This reduction has partly been achieved as a result of us working with grant paying bodies, encouraging them to rely on other forms of assurance. Even with this significant reduction in the number of claims certified, the total value certified increased marginally from £2.87 billion to £2.94 billion.

3.31 The Peer Review recommended that we considered how we might further support the development of improved internal audit within the Welsh public sector. To this end, we included within our future studies consultation a proposal to undertake a cross-cutting study of internal audit services. Any work in this area will need to take into account the potential development of future shared service initiatives. Furthermore, our grants team has continued to work closely with the Assembly Government supporting them with their own internal review of the grants regime in Wales.

3.32 Our management restructuring has helped achieve greater internal scrutiny of project arrangements so that Managing Partners are accountable for all project delivery including internal corporate projects. This accountability is supporting more effective project delivery and prioritisation.

3.33 Programme management has been a perennial challenge for the Wales Audit Office. We continue to refine our programme management and staff selection processes, but the fundamental enabler of more effective programme management is the new annual operational plan programme (communicated to staff in April 2010). This Plan has undoubtedly provided greater clarity to staff in setting out what we need to deliver, by whom, coupled with the links to income.

3.34 As mentioned previously in this report, the creation of the Executive Committee and development of the Operating Guide have clarified the operation of the Wales Audit Office approach to staff deployment and we are continuing to refine and improve our arrangements. We continue to work diligently to improve the processes and systems that underpin staff deployment, especially around resourcing and programme management but recognise there is still much to do in this area.

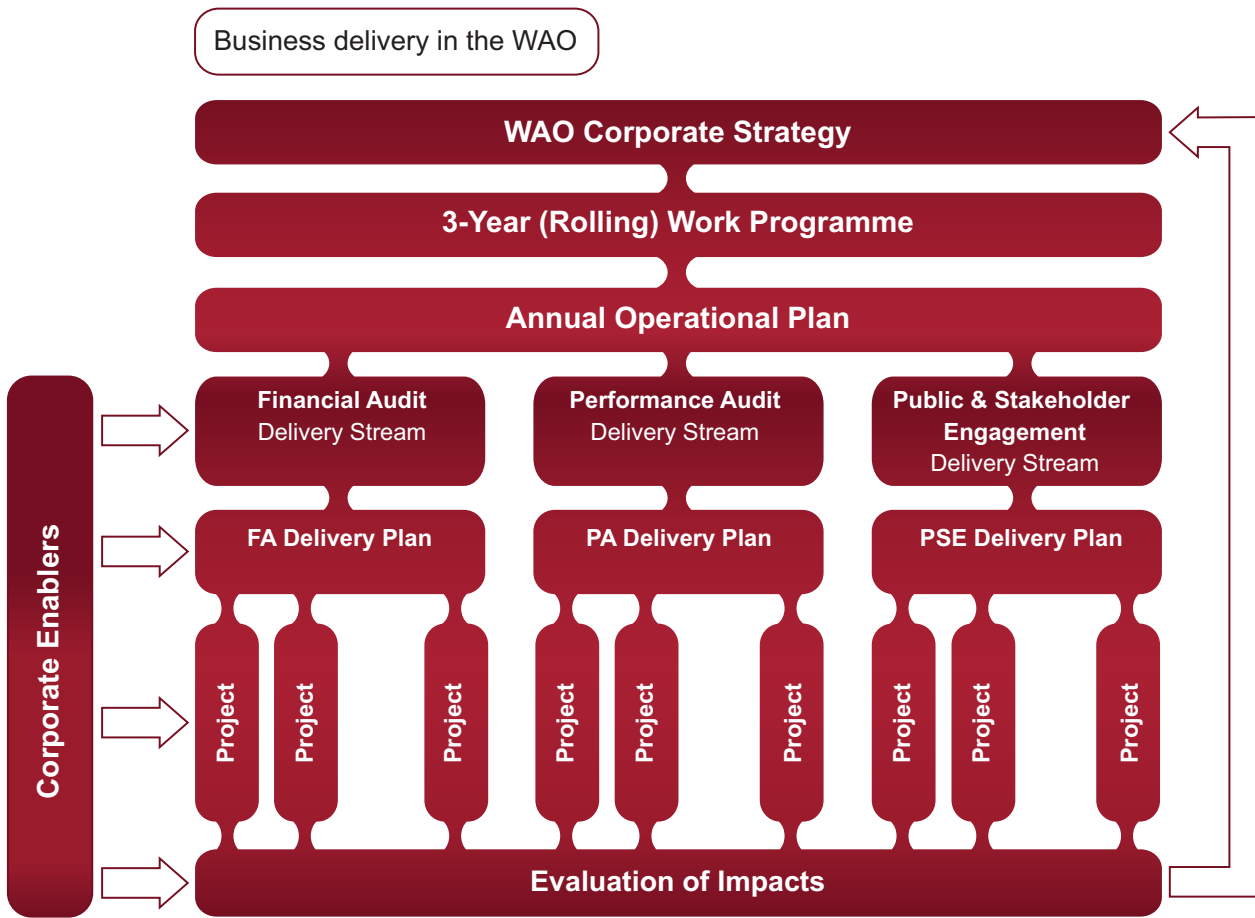
3.35 As part of our Change Programme, we have established an internal efficiency and savings review group to help us respond to the challenges presented by the current financial climate and respond to the recommendations in the Peer Review. As well as our successful track record of exceeding our annual efficiency targets since 2006, and our work to streamline our audit practices, the Group is undertaking a root and branch review of non pay expenditure. We are currently developing systems to measure and report the outcomes of our efficiency work.

3.36 Staff have been, and will continue to be invited to provide ideas and suggestions, and we have already implemented a number of savings initiatives. In future, those ideas and suggestions will be captured by a refreshed staff suggestion scheme that we are developing with Ideas UK, a not-for-profit member organisation.

Annex 1 – Wales Audit Office national reports issued since October 2009

- a** Work based learning follow up;
- b** Coastal erosion and tidal flooding risks;
- c** Services for children and young people with emotional and mental health needs – a joint report with Healthcare Inspectorate Wales, Estyn and the Care and Social Services Inspectorate Wales (CSSIW);
- d** Unscheduled care;
- e** Lean and systems thinking in the public sector in Wales – this report was produced on our behalf by Cardiff University’s Lean Enterprise Research Centre and was published alongside supporting good practice guidance material and an efficiency checklist on our good practice website;
- f** A picture of public services – a report that highlighted the challenges that public bodies are likely to face as a result of the squeeze on public finances, which is set against rising demand for services and which reflected on the lessons from our previous work that can inform the public sector response to these challenges;
- g** National Fraud Initiative 2008-09: Ensuring the proper use of public funds;
- h** Buildings management: national briefing
- i** Plas Madoc Communities First (sector specific);
- j** Sustainable development and business decision making in the Assembly Government (sector specific);
- k** The management of public funding by Cymad Cyf (sector specific);
- l** Capital investment in schools (sector specific);
- m** Public funding of Ffynone and Cilgwyn woodlands (sector specific); and
- n** Sustaining value for money in the Police Service – a joint report published with the Audit Commission and HMIC (sector specific).

Annex 2 – Business Delivery in the Wales Audit Office



Source: Wales Audit Office Operating Guide – version 2