

December 2019

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Estimate of Income and Expenses of the Wales Audit Office for the year ended 31 March 2021 (modified)



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



Jointly prepared and laid before the National Assembly for Wales under Section 20(1) of the Public Audit (Wales) Act 2013

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

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Auditor General for Wales

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Preface

For each financial year, Section 20 of the Public Audit (Wales) Act 2013 requires the Auditor General and the Wales Audit Office jointly to prepare an estimate of the income and expenses of the Wales Audit Office and to lay that estimate before the National Assembly at least five months before the beginning of the financial year to which it relates.

In accordance with Section 20 of the Act, each estimate must cover (amongst other things) the resources required by the Auditor General for the exercise of his statutory functions.

For 2020-21, the [estimate](#) was laid at the Assembly on 25 October 2019 and was considered by the Assembly's Finance Committee on 5 November 2019.

The Committee may make any modifications to the estimate which it considers appropriate, but no modification can be made unless:

- the Auditor General and the Wales Audit Office have been consulted; and
- any representations that either may make have been taken into account.

The Committee consulted the Auditor General and the Wales Audit Office on modifications to the estimate and laid its [report](#) on the estimate on 2 December 2019. This document reflects the modifications made.

The Welsh Ministers must each year move a motion in the National Assembly under Section 125 of the Government of Wales Act 2006 that includes authorisation of the resources to be used (including accruing resources) and payments to be made by the Wales Audit Office. This Estimate sets out the amounts to be included in respect of the Wales Audit Office.

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Foreword

The Wales Audit Office exists to give the National Assembly and the people of Wales confidence in a high-performing and accountable public sector. With public trust in government, institutions and professionals in decline, our work is more important than ever in safeguarding the integrity of our devolved democracy in Wales.

Our wide-ranging programme of value for money work is vital to robust parliamentary accountability through the National Assembly's Public Accounts, Finance and other Committees. We audit the accounts and governance of over 800 public bodies across Wales, providing the principal means of assurance about how public money in Wales is being managed. From the Welsh Government itself to the smallest community council, through almost every area of public service delivery, the Auditor General can follow the public pound wherever it is spent.

The total annual cost of delivering this independent assurance and insight represents a little over 1 penny for every £10 spent on public services in Wales. In 2020-21, our cost to the public purse will be lower than the current year.

The UK's impending exit from the European Union is an unprecedented test for the National Assembly, Welsh Government and the wider public sector across Wales. Financial sustainability is a very real and growing risk for some public bodies. Public services are under increasing pressure to respond to social and demographic changes, rapid technology advancement, climate change, reforms to funding mechanisms and more complex governance models such as City Deal partnerships. And, as both society and technology changes, new risks of fraud and corruption arise.

At the same time, the audit profession itself is under scrutiny. After several well-publicised private sector corporate failures and concerns about the adequacy of local public audit arrangements in England, independent reviews have recently made recommendations to strengthen quality, independence and the scope and expectations of audits. Many of these recommendations are already features of our existing public audit model in Wales, but we are not complacent. Our focus continues to be on delivering independent, rigorous and high-quality audit, and in delivering continuous improvements in our own operations.

In 2018, a new Auditor General for Wales (AGW) was appointed. Since then, the Wales Audit Office Board, and whole organisation, have embraced a shared commitment to unleash our full potential to help the National Assembly hold government to account for spending public money and to drive improvements in public services. This is the first opportunity for the new AGW and Board to submit an Estimate shaped by that vision and our ambitions to:

- fully exploit our unique perspective, expertise and depth of insight;
- strengthen our position as an authoritative, trusted and independent voice;
- increase our visibility, influence and relevance; and
- be a model organisation for the public sector in Wales and beyond.

It provides for an overall real-terms **reduction** in the total revenue budget of the Wales Audit Office of 3%, excluding the biennial cost of the National Fraud Initiative.

We are acutely aware of our responsibility to other parts of the public sector to contain our own operating costs and the fees we charge, provided that does not risk audit quality and the assurance we can provide. This Estimate describes our Smarter, Leaner, Better value-for-money programme and the opportunities we see to continue to drive cost savings and efficiencies in our business model in the years ahead. Building on significant savings made across previous years, our savings target for 2020-21 is £476,000 – a tough challenge for us to achieve and in addition to recyclable vacancy savings of £870,000.

Almost two thirds of our £22 million annual income is derived from the fees we charge to the public bodies we audit. Over the past four years we have successfully delivered real-terms reductions in fees for most of these public bodies.

The Finance Committee is familiar with the inflexibility in our existing statutory funding regime. It significantly constrains the Auditor General's ability to redeploy any capacity released by efficiencies in our fee-earning activities to other types of audit work.

To go some way to overcoming this inflexibility, this Estimate switches c1% of resource from fee income to funding from the Welsh Consolidated Fund (WCF). This transfer between our funding sources of £180,000 will enable us to contain the annual fees that we charge to public bodies through delivering planned audit efficiencies, whilst retaining audit capacity and expertise. We will use that specialist capacity to provide the National Assembly and others with assurance and insight from our annual accounts work that we would otherwise not be able to deliver. Importantly, there will be no net increase in our costs or funding to achieve this.

In addition to this shift, we will use additional revenue and capital resources from the WCF to support planned investment in our digital capacity and capabilities, primarily to expand on our early work on data analytics, leading to longer-term savings and increased impact, and to strengthen our cyber security arrangements.

To deliver this we include an increase of £220,000¹ in the funding that we receive from the WCF. Our fee income will fall by £471,000, so the cost of public audit in Wales will be lower next year than it is this year.

We expand on our plans through this document, which we have developed in accordance with the [Statement of Principles](#)² published by the Finance Committee in May 2019 and the follow-on briefing the Committee provided from the Minister for Finance and Trefnydd in July 2019. This document also reflects the modified proposals supported by the Committee in its report published 2 December 2019.

Our [Annual Report and Accounts](#) sets out our record of achievement for the last financial year. In March this year we laid our [Annual Plan for 2019-20](#) at the Assembly. This Estimate secures funding for our forward priorities for 2020-21, and our Annual Plan for that year will then be laid before the National Assembly in March 2020.



Isobel Everett
Chair, Wales Audit Office



Adrian Crompton
Auditor General for Wales

¹ See Exhibit 5

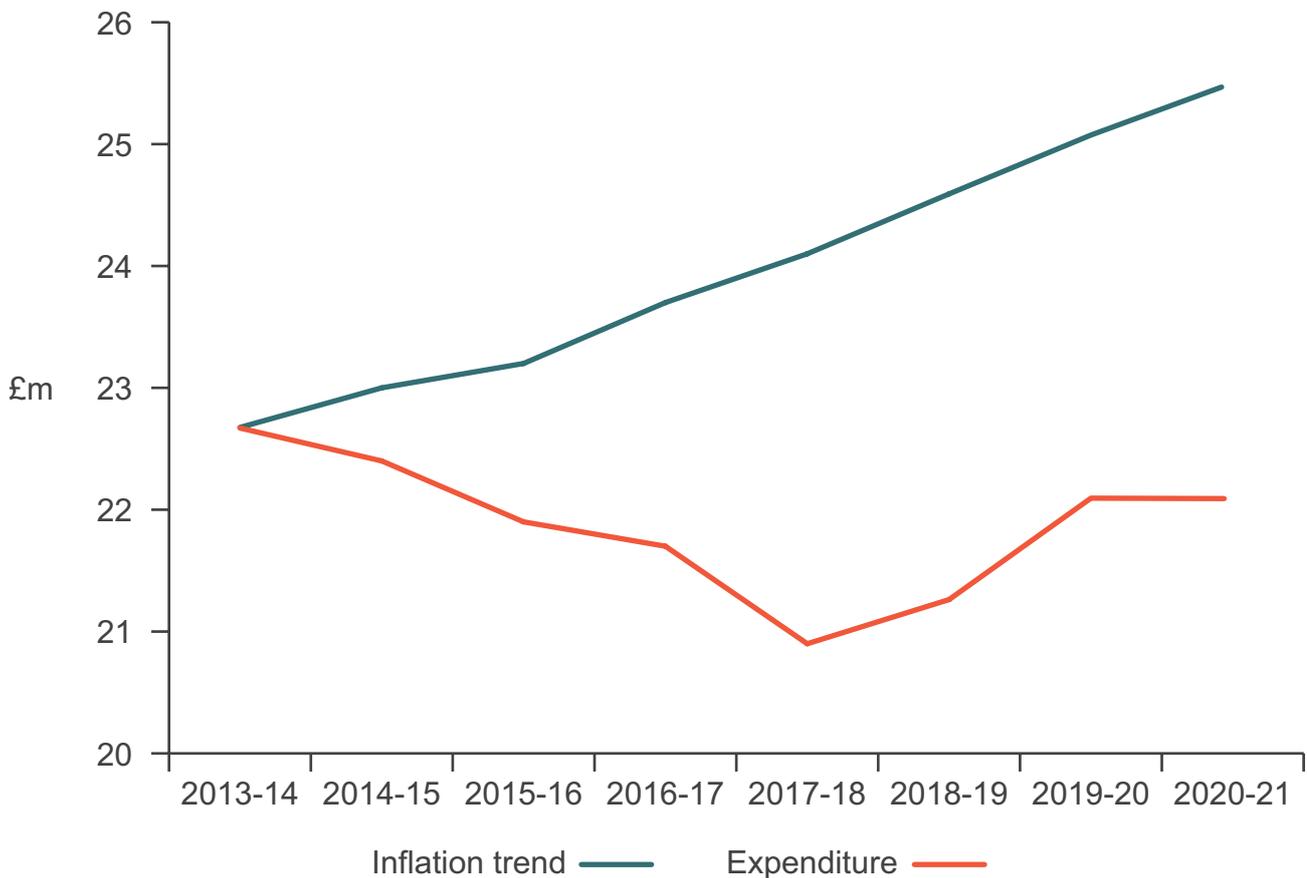
² See Appendix 1

Value for money at the Wales Audit Office

Cost of public audit in Wales

- 1 Since the establishment of the Wales Audit Office Board in 2013-14, we will have reduced the cost of public audit in Wales by 14% in real terms³. This is represented in **Exhibit 1**. The cumulative savings generated across those years will amount to over £16 million.
- 2 We have achieved this reduction in expenditure despite allocating additional resources to new areas of spend during the period, such as Investigative Studies, growth in our Good Practice Exchange work, our investment in a graduate training scheme and in organisational transformation.

Exhibit 1 – the cost of public audit 2013-14 to 2019-20



- 3 Our Estimate for 2020-21 requires that we make savings of £476,000 to balance the budget along with £870,000 savings from staff turnover. We set out below the framework we will employ to identify these savings.

³ Based on GDP deflators published by ONS, June 2019.

Value for Money (VfM) Framework - Smarter, Leaner, Better



Our people

- Aligning resources with Wales Audit Office ambitions
- Skills mix and workforce re-modelling
- Supply/demand modelling
- Reviews of support services and audit delivery

Achieved so far⁴ (savings £967,000)

- Increased use of graduate trainees £178,000
- Reduced number of Directors £587,000
- Reduced contractor expenditure £100,000
- 2015 review of corporate services £102,000

Future potential

- Refresh resourcing plans for audit work
- Tight alignment to work to ambitions
- Strategic Workforce Planning



Time savings



Places

- Smarter working – office space and travel
- Estates strategy
- Building efficiency
- T&S scheme
- IT enabled

Achieved so far (savings £132,000)

- 10% travel cost savings from 2016 review £120,000
- Travel costs contained despite in-sourced Firms' work
- Reduced travel costs re investment in VC/Skype
- Savings from North Wales office move £12,000

Future potential

- Cost savings arising from Ways of Working project
- Estates strategy review



Processes

- Data and digitally enabled
- Smarter working – systems and processes are necessary efficient and effective
- Assembly review of Public Audit (Wales) Act 2013 (PAWA)
- Corporate change programme
- Integrated resourcing

Achieved so far

- Expenses system efficiencies
- Governance reporting efficiencies

Future potential

- PAWA review
- Audit efficiencies from Data Analytics
- On-going process reviews
- Corporate change programme
- Integrated resource deployment



Procurement

- Cost effective procurement
- In-sourcing Firms' work

Achieved so far (savings £785,000)

- In-sourcing firms' work in 2016 £640,000
- Payroll and internal audit outsourcing £75,000
- IT systems £70,000

Future potential

- Firms' contracts end 2020
- Review use of procurement frameworks

⁴ Annual savings identified since 2013

Budget 2020-21

Our Annual Plan Ambitions

4 Our Annual Plan for 2019-20 set out the following ambitions for the work of the Wales Audit Office and the Auditor General. This Estimate sets out the funding required for 2020-21 if we are to achieve these ambitions.



Fully exploit our unique perspective, expertise and depth of insight

- Maximise the power of our unique insight through more integrated team working and knowledge sharing.
- Search proactively for synergies and trends within the information that we hold.
- Focus on what matters most and will make the biggest difference to the public and public bodies.



Strengthen our position as an authoritative, trusted and independent voice

- Bring trusted commentary and evidence to the fore on the right issues at the right time.
- Ensure we clearly lay out the facts and concisely explain why we have arrived at a particular conclusion or interpretation.
- Be alert and responsive to new opportunities to share audit knowledge and insight where it can add value.



Increase our visibility, influence and relevance

- Have an overtly outward focus and engage in a way that resonates with a wide range of audiences.
- Influence the thinking and behaviour of others and shape the wider public debate.
- Seek and be receptive to ideas and lines of thought from outside Wales and outside the public sector.



Be a model organisation for the public sector in Wales and beyond

- Since we form audit judgements on others, make sure we consistently practise what we preach.
- Provide clear, consistent and authentic leadership and increase the pace of our decision making.
- Empower people throughout the organisation to come up with new ideas and effect positive change.

Overview of expenses and income 2020-21

- 5 We have aligned our Estimate format with our Annual Report & Accounts to provide easy readability across our spending plans and actual out-turn.
- 6 Our total planned expenditure for 2020-21 is less in cash terms than for the current financial year – representing a reduction of 2.4% in real-terms. If the cyclical cost of the National Fraud Initiative (NFI) is excluded, our expenditure next year would be 3% lower in real-terms.

Exhibit 2 – expenses and income 2020-21

Expenses	Estimate 2020-21 £'000	Estimate ⁵ 2019-20 £'000	Increase/ (Reduction) £'000
Staff costs	16,379	15,917	462
Short term contract staff	311	737	(426)
Travel and subsistence	1,205	1,216	(11)
Accommodation	940	993	(53)
Private sector firms	598	905	(307)
Irrecoverable VAT	500	500	-
ICT	546	480	66
Wales Audit Office governance	300	300	-
External training	289	289	-
Translation	145	165	(20)
Legal and professional fees	180	162	18
Depreciation	280	280	-
Other supplies and services	675	739	(64)
Savings target	(476)	(540)	64
TOTAL	21,872	22,143	(271)
Cyclical NFI costs	130	-	130
Expenses total	22,002	22,143	(141)

⁵ Per Supplementary Budget Memorandum approved by the Assembly's Finance Committee on 15th May 2019

Income	Estimate 2020-21 £'000	Estimate 2019-20 £'000	Increase/ (Reduction) £'000
Audit Fees	12,375	12,377	(2)
EU Agricultural Funds Audit	759	900	(141)
Grant certification fees	870	1,198	(328)
INCOME TOTAL	14,004	14,475	(471)
Total to be funded from WCF	7,998	7,668	330

Exhibit 3 – expenses breakdown 2020-21

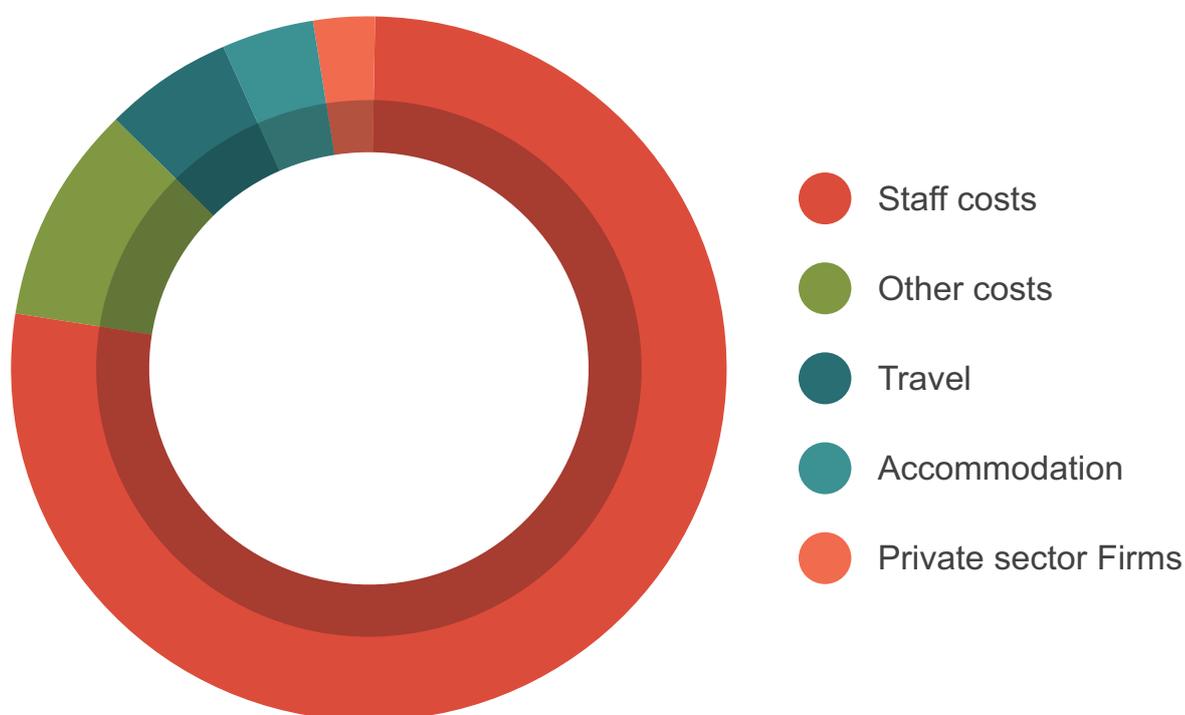
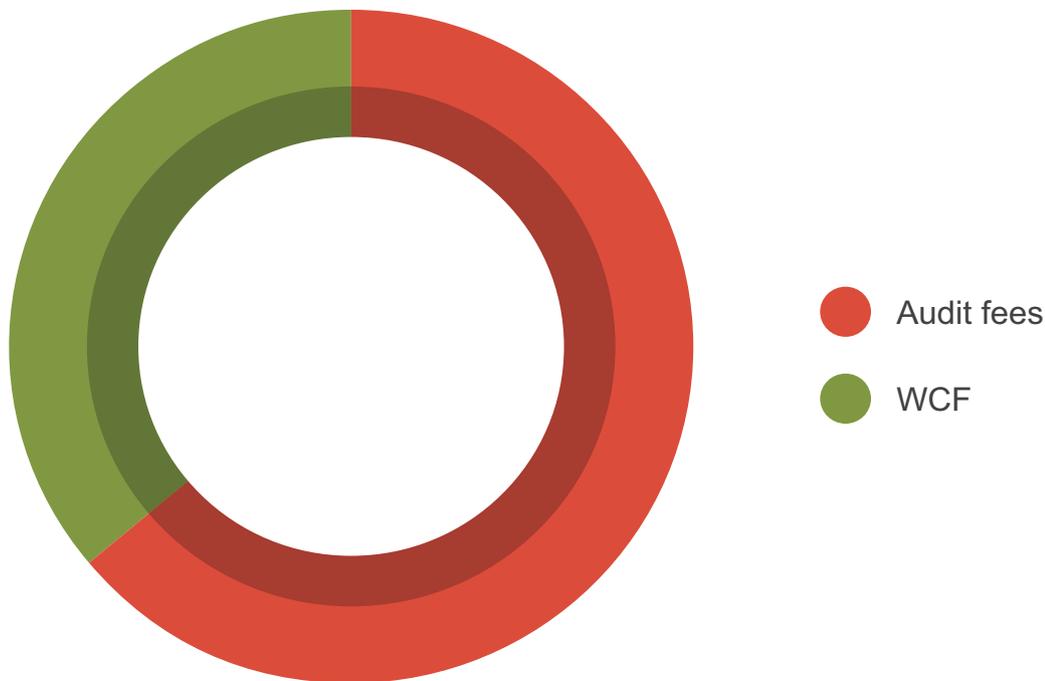


Exhibit 4 – income breakdown 2020-21



Explanation of the main expense areas

Staff costs £16.4 million (77% of expenditure)

- 7 Most of our expense is in respect of the cost of employing our staff. Our budget for 2020-21 includes provision for 273 full time equivalent roles. In line with Welsh Government guidelines⁶ we have included an indicative 2% budget increase in anticipation of a pay settlement for the year, from April 2020.
- 8 We anticipate a marginal increase in overall staff numbers from 2019-20, reflecting a leaner and more cost-efficient staff/grade mix, an extension of our highly-regarded graduate trainee and apprentice programmes, and some essential specialist capacity and expertise for our Data Analytics project and to meet our cyber security requirements. Our use of short-term contract staff is reducing as we recruit more trainees and apprentices.

6 Letter dated 19th July 2019 from Minister for Finance and Trefnydd

Travel and subsistence £1.2 million (6% of expenditure)

- 9 Our budget for 2020-21 shows a small reduction as compared to the previous year, based on an expected reduction in travel in response to our Ways of Working project.
- 10 We anticipate that further savings will materialise and contribute to our global savings target as we fully implement the recommendations from the 'Ways of Working' transformation project. This will likely see more of our staff working remotely or from 'audit hubs' rather than travelling daily to client sites.
- 11 A value for money review of our travel scheme will be carried out by the end of this year. In agreement with the Assembly's Finance Committee, we have appointed our external auditors, RSM UK LLP to undertake this review.

Accommodation £0.9 million (4% of expenditure)

- 12 We currently have 3 office bases: in Cardiff, Abergele and Swansea – the leases on each of these come to an end between 2021 and 2025. Our Estates Strategy is being updated, considering the findings of our Ways of Working project, to consider the best solutions for our future accommodation needs.

Private Sector Firms £0.6 million (3% of expenditure)

- 13 In January 2019 the Board agreed, following detailed consideration of an options appraisal and business case, that the Wales Audit Office would no longer contract out audit work to private sector firms. Current contracts come to an end in the autumn of 2020 after which time the work will be carried out by Wales Audit Office staff. The change will in no way reduce audit quality and provides the opportunity to realise other benefits including:
 - reduced costs to enable the Wales Audit Office to achieve its medium-term financial plan and strategy;
 - in line with our workforce planning principles, avoidance of redundancies (and as associated costs) for Wales Audit Office staff following the anticipated loss of income from audit of EU Agricultural funds and Welsh Government grants certification work; and
 - avoidance of the costs of contract management and dispute resolution;
 - potential to deliver more tailored service to audited bodies, such as through our Welsh language provision;
 - ability to support strategic improvement in financial management of the Town and Community Council sector.

- 14 We do not currently anticipate that any significant recruitment will be necessary, as this additional work is expected to align with the end of our existing audit work on EU Agricultural Funds in 2020-21⁷.

ICT £0.5 million (2% of expenditure)

- 15 We plan to spend £546,000 on ICT in 2020-21, mainly on software licences (including Microsoft office and core systems) and line rentals for our ICT infrastructure.
- 16 Our expenditure on ICT is increasing as we increase our use of specialist analytics software and respond to increased requirements for improved cyber security.

Other expenses

- 17 As set out in [Exhibit 2](#), we incur a range of other expenses in running the Wales Audit Office, such as external training, legal and professional fees (including our internal and external auditors), Welsh translation, depreciation of our capital assets and costs associated with the National Fraud Initiative.

Income

- 18 We derive income to fund our work from two sources: fees charged to audited bodies (64%) and from the Welsh Consolidated Fund (36%).
- 19 The Wales Audit Office does not generate profits on fees. The Public Audit (Wales) Act 2013 requires that the fees we charge must not exceed the full cost of exercising the function to which the fee relates. This is a particularly restrictive provision that limits our ability to use our resources flexibly. We therefore very much welcome the Finance Committee's intention to develop and consult on a draft Bill to amend the Public Audit (Wales) Act 2013.
- 20 When the Auditor General gave evidence to the Finance Committee in July 2019 in relation to the restrictions of the legislation, he referred to this inflexibility and the particular constraint that it places on his ability to move any staff capacity from fee-earning work to other types of audit work.
- 21 He said, 'Administratively, when I try to take staff who are fee funded away from that work, or encourage them to be more efficient, to free up some of their time to deliver something new and fresh, we're left in this vicious circle...locked into this straitjacket of the 'no more than cost' rule, keeping our resource locked in to particular areas of work, and not freeing it up, as I'd like to be able to do'.

⁷ See paragraph 86

22 In order to overcome this inflexibility, this Estimate therefore proposes reducing fee income by 1.2% and switching that £180,000 to be funded from the WCF instead. This will enable us to retain specialist audit capacity and expertise freed-up through audit efficiencies, to redeploy to new areas of work and achieve greater impact. Importantly, this means the overall cost of the work we undertake will not increase (it has no net impact on the Welsh block), but it will enable us to continue to reduce the annual fees we charge to public bodies through delivering audit efficiencies.

Fee income

- 23 We anticipate two significant reductions in our income from audit fees in 2020-21. These arise in part from Brexit and the expected loss of audit work on EU Agricultural Funds, and from the decision of the Welsh Government to reduce the assurance work we undertake in respect of grant certification.
- 24 In 2019-20, we are receiving just under £1 million in fees to fund our audit of EU Agricultural Funds across Wales. Our Estimate assumes a reduction of around £140,000 for 2020-21 and the complete elimination of this fee income stream in subsequent years, consequent on the UK's departure from the EU.
- 25 Over recent years, the annual fee income generated primarily by our grant certification work for the Welsh Government has declined from around £2.5 million to just £1.2 million in 2019-20. In June 2019, the Welsh Government notified the Auditor General of its intention to discontinue its commissioning of this work with effect from 2019-20. This Estimate therefore incorporates a reduction of £328,000 in grant certification fee income for 2020-21, and we anticipate a further very substantial reduction in this fee income stream in future years.
- 26 To ensure no reduction in overall audit assurance over the operation of the Welsh Government's hypothecated grant expenditure programmes, over the next few months we will consider carefully whether we may need to conduct additional audit work to support the Auditor General's opinions on the Welsh Government's annual accounts, and/or whether more frequent value for money study coverage of grant-funded expenditure is warranted. We will set out our intentions in future Annual Plans and notify the Finance Committee accordingly.
- 27 We are acutely aware of the financial pressures on all parts of the public sector and our responsibility to deliver our audit work as efficiently as possible. We strive consistently, therefore, to minimise the overall cost of audit to public bodies without sacrificing audit quality.

- 28 These changes to our workload, along with the in-sourcing of work from private sector firms have been factored into workforce planning requirements and our medium-term financial and resource planning.
- 29 The combined effect of these changes mean that we will receive over £470,000 less in fee income next year – a reduction of 3.3% in cash and 5% in real terms.
- 30 The income we receive from fees is governed by the Wales Audit Office Fee Scheme, as approved by the Assembly's Finance Committee. Legislation requires us to publish a Fee Scheme at least on an annual basis.
- 31 We will lay our Fee Scheme for 2020-21 before the National Assembly and then confirm estimated fees for next year to our audited bodies.
- 32 In August 2019 we consulted 268 individuals across 96 organisations on our proposed fee scales for 2020-21 which are around 1% lower than those applied for 2019-20.
- 33 We received just 9 responses, suggesting that for most bodies, our fees are not a significant area of concern. Responses received told us that:
- audited bodies welcome the work done by the Wales Audit Office and the professional approach of our staff;
 - audited bodies continue to welcome free participation in the National Fraud Initiative;
 - the proposed reduction in median fee levels is welcomed;
 - there is a continuing expectation that the Wales Audit Office demonstrates value for money in line with the financial pressure being faced by audited bodies;
 - one audited body would welcome more transparency in how fees are set; we will discuss this with them; and
 - for the National Parks, there is concern about how our fees compare with those paid by equivalent bodies in England; again, we will discuss this with them.
- 34 The Board welcomes the feedback and will take it into account in finalising the Fee Scheme.

Welsh Consolidated Fund income

- 35 For 2020-21 we are seeking WCF revenue funding of £7.998 million. After accounting for the cyclical change in funding for the National Fraud Initiative, this represents a 2.6% increase in cash and a 0.7% increase in real-terms on the amount received for 2019-20. A significant proportion of this increase reflects the switch from fee to WCF income described above.
- 36 We explain more in the following section about what we will deliver with the WCF income we receive.

Funding our work - WCF 2020-21

Changes in our call on the WCF 2019-20 to 2020-21

37 This Estimate seeks to increase our call on the WCF by 0.9% in real-terms after accounting for the cyclical increase in NFI funding. The changes are summarised in [Exhibit 5](#).

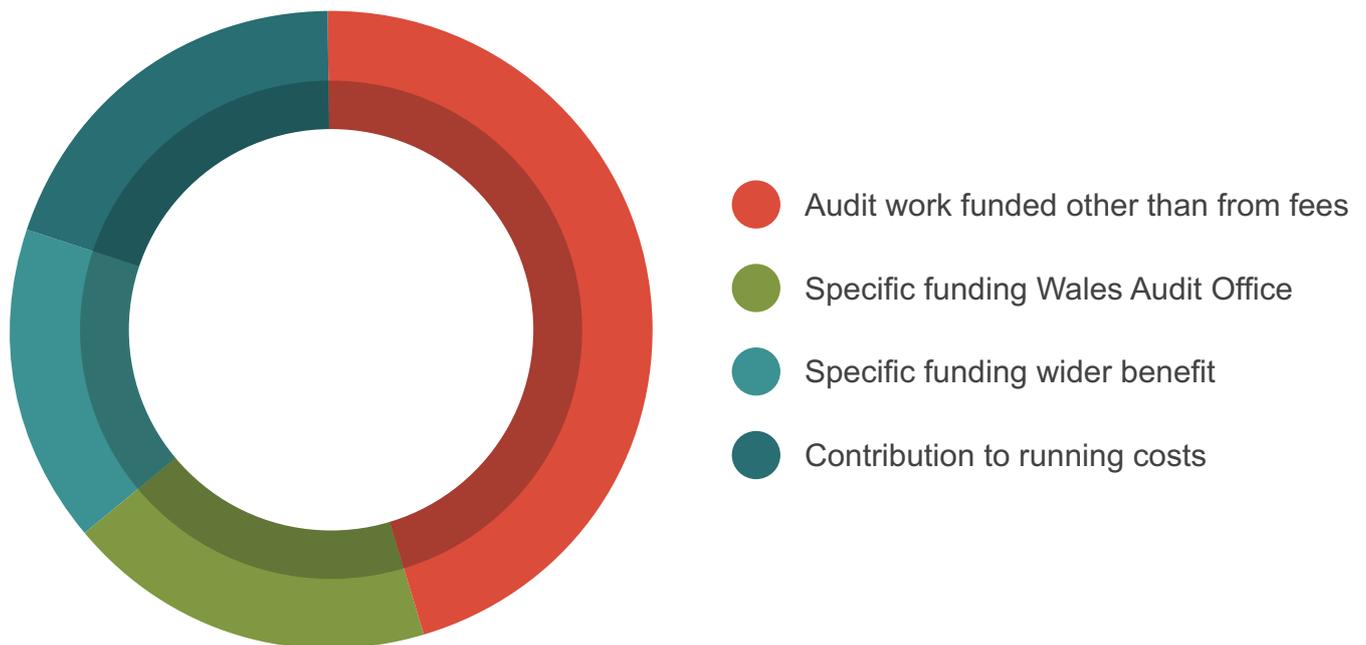
Exhibit 5 – changes in WCF funding from 2019-20 to 2020-21

	Revenue £'000	Capital £'000	Total £'000
2019-20	7,668	210	7,878
Cyclical NFI Funding	130	-	130
Baseline Estimate 2020-21	7,798	210	8,008
Changes for 2020-21			
Capital programme	-	20	20
Audit work funded other than from fees (£180,000 increase less £85,000 returned)	95	-	95
Specific funding supporting the Wales Audit Office (data analytics/cyber security)	225	-	225
Contribution to running costs, being part-provision for a pay agreement	120	-	120
Contribution to running costs to be recovered from fees	(240)	-	(240)
Total WCF Funding 2020-21	7,998	230	8,228
Change from baseline	200	20	220

How we will use WCF funding

38 The Wales Audit Office will use the funding it is seeking from WCF in four main ways, as shown in Exhibit 6.

Exhibit 6 – planned use of £7.998 million WCF revenue funding 2020-21



Audit work funded other than from fees: £3.643 million (£95,000 increase over 2019-20)

- 39 WCF income enables the Auditor General to support the work of the National Assembly directly through his programme of national value for money studies. These are reported to the Assembly's Public Accounts Committee and described in [our Work Programme for 2019-20](#).
- 40 The Committee is one of the key mechanisms for the Assembly to hold to account the organisations which it funds directly or through the Welsh Government. We therefore aim to ensure that the Committee is well-supported by us in its work.
- 41 Increasingly, other Assembly committees are drawing on, or commissioning, Wales Audit Office studies and the specialist knowledge and expertise of our staff. Recent examples include support provided to the External Affairs & Additional Legislation Committee in respect of Brexit; and the Finance Committee in respect of its inquiry into the Welsh Government's capital funding sources. Our aim is to extend further the range and depth of support we provide to the National Assembly and this Estimate includes an element of funding to enable this.
- 42 The funding also allows the Auditor General to respond flexibly to issues that arise during the year, including concerns raised by the National Assembly, its committees, Members or others.
- 43 As previously explained, this Estimate includes provision to switch £180,000 of audit resource from being fee-funded to being WCF-funded.
- 44 We will deploy the capacity and expertise of our auditors to provide added-value commentary and insight arising from our accounts audit work. This will be of direct value to the National Assembly, to those charged with governance throughout the public sector and to the wider public. It will align with our ambition to inspire and empower public service improvement and to explain how public money is being used, going beyond the core assurance statements we currently provide and charge for through fees.

- 45 Specifically, the added flexibility will enable us to undertake annual pieces of work to explore particular themes arising from our accounts work. Examples might include examination of voluntary severance schemes or asset management across the public sector; annual sectoral reviews of financial health and sustainability on a pan-Wales basis; or to report publicly on key facts/issues arising from individual bodies' accounts.
- 46 In 2019-20, our Estimate included £85,000 for audit work reviewing Brexit preparedness across public bodies in Wales. We published a report (and updated this recently) delivered three well-attended 'roadshow' seminars in partnership with Academi Wales, and ran a Good Practice webinar.
- 47 Clearly, there will remain a need for significant assurance and value for money audit work related to the immediate, medium and longer-term impacts of Brexit, but we currently expect to be able to build this into our main programme of work, rather than needing to request additional specific funding. Hence this funding will be reallocated to contain the overall increase for audit work funded other than from fees to £95,000.

Specific funding (supporting the Wales Audit Office) – £1.483 million
(£225,000 increase over 2019-20)

48 Details of these projects are provided in [Exhibit 7](#). More detail on each headline area is provided below.

Exhibit 7 – projects supported by Finance Committee (supporting the Wales Audit Office work programme)

	Estimate 2020-21 £'000	Estimate ⁸ 2019-20 £'000	Additional Funding £'000
Civil Service pensions cost increase 2019-20	732	732	-
Transformation projects	631	406	225
Early closure of Local Government Accounts	120	120	-
Total	1,483	1,258	225

Civil service pensions cost increase 2019-20

49 In 2019-20 the Treasury provided funding to meet additional costs associated with an actuarial review of the Civil Service Pension Scheme and the Assembly subsequently supported the [additional funding for the Wales Audit Office](#).

⁸ Per Supplementary Budget Memorandum approved by the Assembly's Finance Committee on 15 May 2019

Transformation Projects

- 50 Since 2016 we have allocated funding to deliver strategic transformational change in the way that we deliver our audit work. The funding has supported projects to:
- explore the potential and increase our use of Data Analytics. Our work in this area has demonstrated that technology will deliver efficiencies in our core audit work. Data Analytics has also started to transform the way in which we present and communicate our work and the depth of insight we can provide. This Estimate seeks further funding to enable us to take data analytics beyond the pilot and exploratory phase and to embed it into all of our work;
 - review the way we communicate and engage externally so as to maximise the impact of our work; and
 - review the ways that we work, ensuring that they are 'fit for the future' – for example by using technology to reduce the amount of travel that our staff need to do, and rethinking our operating models to enhance staff well-being and motivation.

Data Analytics

- 51 We expect 5 key benefits from our Data Analytics project
- increased confidence in our work;
 - improved evidence base for our work;
 - expanded range of analytical methods and visualisations;
 - time/cost savings in our audit work and internal processes;
 - our ideas are adopted by others.
- 52 As the project progresses, we are monitoring the extent to which these benefits are being realised.
- 53 Additional funding has been identified to increase our investment in Data Analytics – ensuring that we can access the data of audited bodies safely and securely for maximum benefit.
- 54 The additional funding will allow us to store data securely from our audited bodies and to combat increasing cyber security risks ensuring that we comply with the Data Protection Act (2018).
- 55 The funding will also allow us to increase the size of the team working on this project to allow them to meet the Auditor General's long-term ambitions for the use of Data Analytics in our work.

- 56 Over the medium to long term, once data analytics is fully embedded within our audit work, we believe there is potential to reduce the cost of undertaking an audit of accounts by 5-10%. While it is very difficult to say with certainty the likelihood or exact timescales for securing such efficiencies, it remains a core element of our approach to benefits realisation. What we can say with certainty is that these efficiencies cannot be delivered without further investment in continued experimentation, development and programme delivery.
- 57 Without this additional funding we will continue to develop some data tools but the pace of development will be significantly slower and more ad hoc.

Cyber security and digital vision

- 58 Organisations everywhere are facing an increasing cybersecurity threat from malicious individuals looking to break into systems, steal information and cause damage. Businesses face disruption, significant costs, reputational impact, criticism and fines from the Information Commissioner's Office if systems are compromised.
- 59 The Wales Audit Office needs to increase its preparedness on cyber security in proportion to the risk, ensuring audit data can continue to be handled safely and securely, and that Wales Audit Office is prepared to respond to any future breach that may occur.
- 60 The Wales Audit Office website is increasingly important as the first port of call for those looking to obtain reports or engage with the organisation and its work. We need to ensure that the website is updated and maintained such that it continues to meet standards for accessibility and security.
- 61 We have identified additional funding to cover the cost of a specialist website developer, to purchase essential software and to provide training for improved cyber security.
- 62 If the funding were not available, this would mean the Wales Audit Office's preparedness in respect of cyber security is not where it should be given the threat, and that Wales Audit Office may find it difficult to meet its commitments to accessibility regarding the public website, without scaling back other important areas of activity.

Other transformation projects

- 63 As the transformation projects have moved from feasibility to implementation, the £100,000 previously allocated will be reallocated to the above priorities, containing the additional funding requirement to £250,000.

Early closure of Local Government Accounts

- 64 Our Estimate for 2018-19 identified a 3-year funding requirement to allow us to work closely with Local Government bodies as they prepare for the requirement to have their accounts signed off by 31 July each year as compared to the previous deadline of 30 September.
- 65 By 31 July 2019 the accounts of the four Police, three Fire and Rescue and three National Park authorities had been published by 31 July, as required. The 31 July deadline for the 22 unitary authorities will not apply until 2021. However, we are pleased that 30% of those authorities have already achieved the new deadline in 2019.
- 66 As we have previously indicated to the Finance Committee, 2020-21 will be the final year for which we seek this transitional funding.

Specific funding (for wider public sector benefit) – £1.287 million
(£130,000 increase over 2019-20 being the cyclical increase for NFI)

67 Details of these projects are provided in Exhibit 8.

Exhibit 8 – projects supported by Finance Committee (wider benefit)

	Estimate 2020-21 £'000	Estimate 2019-20 £'000	Additional Funding £'000
Future finance leaders – pan-Wales financial skills development	567	567	-
Good Practice Exchange	540	540	-
National Fraud Initiative (NFI)	180	50	130
Total	1,287	1,157	1,230

Future finance leaders – pan-Wales financial skills development

68 This All-Wales initiative, co-ordinated and led by the Wales Audit Office, was established in 2016 to provide a pool of highly qualified finance professionals for employment across Welsh public bodies. Alongside high-quality financial and leadership training, we also provide secondment opportunities for our graduate trainees to work in other public bodies – helping to prepare them for their future roles managing public finances in Wales.

69 In 2018, with support from the Finance Committee, we were able to extend the programme to include apprenticeships thereby creating new career path opportunities for non-graduates.

70 We are now employing close to 50 graduate trainees and a further 8 apprentices – accounting for around 20% of our total workforce. Not only has this been having a positive impact in our audit skills-mix model, it has also had wider benefits in terms of our organisational culture and diversity.

- 71 2019 was the first year when we have seen some of our trainees who have benefited from the programme supported by WCF funding, qualify and leave the Wales Audit Office.
- 72 Of the 9 trainees who have left us this year, 6 have chosen to stay in the public sector, 5 in Wales and one in England. This means that the public sector is directly benefiting from the investment made as intended when the scheme was established.
- 73 Monies received from the WCF contribute to the costs of running this programme, providing secondees at no charge to other Welsh public bodies and running an annual trainee conference for around 190 finance students from across the public sector in Wales.

Good Practice Exchange

- 74 Funding provided by WCF allows us to run our highly-regarded Good Practice programme free of charge to public bodies and the third sector across Wales. Last year, we connected 1,400 people through 18 shared learning events. 88% of our stakeholders say our good practice work has benefitted public services, so without this funding, those benefits and opportunities will be lost.

National Fraud Initiative (NFI)

- 75 Since 2015 the Finance Committee has supported participation in NFI for all public bodies in Wales at no cost to those bodies. Our last biennial report identified potential savings and over-payments of £5.4 million across Wales's public services, increasing cumulative savings to £35.4 million since 1996 – a significant return on investment.
- 76 The costs associated with this increase by £130,000 in each alternate year to fund the costs of data checking carried out by Cabinet Office.
- 77 Without this funding the costs of carrying out this work would need to be passed on directly to participating bodies as additional fees, potentially resulting in a significant reduction in the number of bodies who opt to take part.

Contribution to running costs £1.585 million (£120,000 reduction from 2019-20)

- 78 Funding is provided from WCF to meet some of the costs of the Wales Audit Office which are not passed on through fees to audited bodies. These include:
- a contribution to the costs of technical support, quality assurance and compliance, being essential elements of ensuring sound public audit;
 - a contribution to our total travel costs, so ensuring that audited bodies are not disadvantaged by their geographical location;
 - investment in staff learning and development; and
 - governance costs, such as for the Wales Audit Office Board, associated support costs and other aspects of ensuring compliance with the Public Audit (Wales) Act 2013.
- 79 For 2020-21 we are requesting an additional £120,000; a proportion of the £320,000 we have included in the Estimate for increases in our pay budget. The balance of the additional pay costs has been included in proposed fee rates for 2020-21 to be reflected in the fees paid by audited bodies.
- 80 In order to reduce our call on WCF in 2020-21, we will allocate £240,000 of running costs to be met from fees rather than WCF. This is in response to the Finance Committee's request for us to limit our call on the WCF and will result in a 3% increase to our fee rates, although there will still be a small reduction in our fee scales due to audit efficiencies.

Capital investment

- 81 Our capital investment priorities for 2019-20 to 2023-24, linked to our medium-term IT and Estates Plans, are set out in [Exhibit 9](#), which we update annually. All capital investment is funded from WCF through this Estimate.

Exhibit 9 – capital investment 2020-21 to 2024-25

	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000
ICT/Digital infrastructure	120	120	150	150	150
Corporate systems	50	60	100	150	200
Estates strategy	40	50	100	500 ⁹	200
Total	210	230	350	800	550

ICT/Digital infrastructure

82 A rolling programme of PC/IT equipment renewal to ensure business continuity and that equipment remains fit-for-purpose and reliable. We have increased the allocation for this priority from 2021-22 to ensure that we are able to respond to improvements in technology to support our digital strategy ambitions.

Corporate Systems

83 Our Ways of Working transformation project identified a need for better, more joined up business information systems to ensure that our staff can work in the most efficient ways. We are committed to ensuring our systems and processes are necessary, simple, efficient and effective and envisage continued investment through the next five years, very much linked to our Smarter, Leaner, Better VfM framework.

Estates strategy

84 During our five-year programme, the leases on our three office buildings in Cardiff, Swansea and Abergele will be due for renewal or ending. Our capital programme provides an early indication of the estimated costs associated with potential moves. It is difficult to estimate costs at this time but changes in the way that we work are expected to result in savings in accommodation costs for which up-front investment will be required.

⁹ This budget may need to increase significantly subject to the outcome of our estate's strategy review. The impact of IFRS16 is also likely to be significant but cannot yet be estimated (see paragraphs 95 to 97).

Potential changes to this budget

85 We set out below issues that may impact our budget for 2020-21 which could result in the requirement for a Supplementary Estimate in year.

EU Agricultural Funds

86 This Estimate was predicated on the UK leaving the European Union on 31 October with a transitional deal that would see our work on EU Agricultural Funds continuing until Autumn 2020 and hence coinciding with the in-sourcing of audit work currently being undertaken by private sector firms. We will need to revisit our assumptions post-General Election.

87 Our budget currently allows for £760,000 income from this work.

88 In the event that the UK leaves the EU in the coming months with no deal, we expect our work to come to an end by March 2020 at the latest. In this event the Wales Audit Office would face two options, each of which would require a Supplementary Estimate:

- to re-allocate those staff to new projects until the autumn with lost income being replaced by additional WCF funding to bridge the six-month gap in expected fee-generating workload; or
- to offer redundancy packages to a number of staff in the knowledge that additional staff would need to be recruited some six months later.

89 Our preferred option would be the former, given the likely costs and management time involved in making staff redundant and then having to undertake a significant recruitment exercise just a few months later.

90 Remaining in the EU would likely impact the work of the Wales Audit Office if the requirement to audit EU Agricultural Funds continues after autumn 2020. We are developing contingency plans to provide the additional, possibly temporary, resource that this would require.

Public sector pay increases

91 We have made an indicative provision for a 2% increase in our pay budget in line with the position communicated to us by the Minister for Finance and Trefnydd.

92 If pay deals in excess of this are agreed across the wider public sector, then this position may not be sustainable in terms of our ability to attract and retain staff, and it could become necessary for us to revisit this with the Finance Committee.

New reporting standards

- 93 International Financial Reporting Standard 16 (IFRS 16) on accounting for leases is due to be introduced from 2020-21.
- 94 The impact of accounting for the depreciation and interest associated with the capitalisation of existing leases as compared to the annual running costs of those leases is not significant for the Wales Audit Office due to the short amount of time remaining on our property leases. No adjustment is therefore required to our budget for this change in 2020-21.
- 95 There will potentially be a change to our capital expenditure requirement in 2022-23 as shown in [Exhibit 9](#) if we enter into a new lease arrangement. It is not possible to estimate this impact at present.

No-deal Brexit

- 96 Other than the direct impact on income from the loss of our EU Agricultural Funds audit work, it is difficult to estimate any other funding or workload management implications arising directly from a no-deal Brexit. We have plans in place which would allow us to re-prioritise some audit work if the Auditor General considers it necessary, but we might need to revisit if the actual position differs fundamentally from what our plans allow.

Net cash requirement

- 97 The Budget Ambit allows for a £500,000 movement in year-end accruals at the end of 2020-21. It is extremely difficult to forecast this movement at the time of preparing the Estimate and hence this will need to be reviewed once the Annual Report and Accounts for 2019-20 have been prepared.

The budget ambit

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2021

- 98 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the WCF for certain relevant persons, including the Wales Audit Office.
- 99 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2021, the Budget Motion will authorise:
- the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
 - the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the WCF; and
 - the amount which may be paid out of the WCF to the Wales Audit Office.
- 100 These requirements, which due to the variability of income streams can only be estimates, are summarised in [Exhibit 10](#).

Exhibit 10 – summary of the estimated 2020-21 budget requirements

	£'000
Resources, other than accruing resources, for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office and the Auditor General and on the administration of the Wales Audit Office:	
• Revenue	7,998
• Capital	230
Accruing resources from fees and charges for audit, grant certification and related services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services and recoveries of costs incurred for a third party– all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	14,004
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	8,448

101 **Exhibit 11** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2021.

Exhibit 11 – reconciliation of resource requirement to cash drawing requirement from the WCF

	£'000
Net request for resources – revenue and capital	8,228
Non-cash adjustment – depreciation	(280)
Non-cash adjustment – movements in working capital	500
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	8,448

Appendix 1 – Statement of Principles

Requirement	Response
Budget requests should be set in the context of the long term financial funding situation in Wales and funding pressures in the wider public sector.	Budget requests have been limited to new initiatives and a contribution to pay deal in line with that recommended by Welsh Government.
Requests show how annual and multi-annual objectives will be prioritised, monitored and achieved.	Our Estimate references Annual Plan and Annual Report and Accounts which provide this detail.
Directly Funded Bodies (DFBs) should not assume an increase in funding, regardless of the block grant change as any increase to their funding reduces funding available to other devolved public bodies.	Increases are linked to specific requests.
DFBs should continually seek to improve processes and accrue efficiencies.	Value for Money statement included in Estimate.
Where any increases in funding are requested, these should be backed by evidence both of the need, benefit and attempts that have been made to reduce such costs. Also the consequences of not obtaining the requested resource should be made clear and quantified.	Details have been provided against each request.

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