



WALES **AUDIT** OFFICE

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Auditor General's Annual Report and Accounts 2013-14

Wales Audit Office

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June 2014

Highlights

Providing assurance, offering insight and promoting improvement

- Issued reports on the accounts of over 800 public bodies in Wales
- Published 16 national reports looking at the value for money and proper use of public money and 4 reports in the public interest on payments made to senior officers
- Delivered annual improvement assessments at all 28 local government improvement authorities, and structured assessments at all 10 NHS bodies
- 33 local government grant schemes certified worth over £3 billion, involving over 780 individual claims, and resulting in adjustments of £2.4 million

Running the business

- Reduced our production of waste by 27 per cent
- Achieved a 5 per cent reduction in rates of sickness absence
- 2 of our audit trainees were awarded International Subject Orders of Merit in recognition of their high standards of achievement
- Taxpayers' equity balance of £1.6 million will be distributed to local government bodies during 2014-15, in line with legislative changes that mean we are no longer able to hold reserves

2013-14 at the Wales Audit Office

April	May	June
<p>Published our strategy and priorities for the next three years</p> <p>New audit legislation enacted, including provisions for the Wales Audit Office to be a corporate body</p>	<p>Published reports on how well several local government bodies are planning for improvement and delivering their services</p>	<p>Issued reports on the accounts of most NHS bodies in Wales</p> <p>Jointly raised a number of concerns about governance arrangements at Betsi Cadwaladr University Health Board</p>
October	November	December
<p>The Chair and non-executive Board members of the new Wales Audit Office were appointed</p> <p>Hosted a shared learning seminar on fleet management</p>	<p>Consulted on an enhanced and extended set of principles for auditors</p> <p>Reported on whether higher education finances are in good health</p>	<p>Jointly published a follow-up review of safety issues relating to child and adolescent mental health services</p>

July	August	September
<p>Re-accredited at level 4 of the Green Dragon Environmental Management Standard</p> <p>Provided a detailed assessment of the financial position across NHS bodies in 2012-13</p>	<p>Highlighted, through our annual report and accounts for 2012-13, how we built on our work on being an accountable, well-run and efficient organisation</p>	<p>Issued reports on the accounts of most major local government bodies in Wales</p> <p>Reported, in partnership with Estyn, on the effectiveness of arrangements for covering teachers' absence in schools</p>
January	February	March
<p>Issued three reports in the public interest on unlawful payments made to local government senior officers</p> <p>Provided an overview of the extent to which councils in Wales are responding to the financial pressures they face</p>	<p>Presented an analysis of senior management pay across the Welsh public sector</p>	<p>Published our forward programme of studies</p> <p>Reported on whether the Welsh Government's location strategy has delivered value for money</p>

Foreword by the Auditor General



This has been an interesting and productive year for the Wales Audit Office, and the final one in which it will be my pleasure to present its annual report, because under the Public Audit (Wales) Act 2013, that duty passes to the new Wales Audit Office Board

Maintaining public confidence in how money is spent has never been more important. The Welsh Government and National Assembly for Wales continue to seek the independent and authoritative input of the Auditor General, supported by the Wales Audit Office, for a range of purposes. Indeed, there are current discussions concerning the possible role of audit, in relation to the sustainable futures agenda. Relationships between the Wales Audit Office and the wider community of external review in Wales have continued to strengthen, building on the advantages of a well-connected Welsh public service.

Consequent on the 2013 Act, we have had to fundamentally review our costing model this year. An HMRC VAT ruling has also meant we can no longer recover VAT on the costs incurred in conducting our audit work. Together these changes mean that after several years of progressive reductions there has been an overall small fee increase this year. Other factors, such as the rebate we will make to local government bodies, equivalent to around 18 per cent of the previous year's audit fee, have served to mitigate the impact of these changes for most public bodies. However, I do not underestimate the regrettable combined impact on some smaller bodies.

The Wales Audit Office Board and I are keen to explore possible changes in legislation that might lead to simpler and less onerous cost recovery approaches in future. In the meantime, we have done our best to be open and clear about the changes, inviting views on this and other matters from all our stakeholders. Early feedback suggests that our stakeholders continue to support and value our work. A quick glance through this annual report and the sheer volume and range of work undertaken by the Wales Audit Office should be enough to demonstrate that public audit services in Wales continue to play an active and effective role in Wales.

The Commission on Public Service Governance and Delivery indicated that the messages of our audit reports are permeating thinking in Wales. It is important then, that the Wales Audit Office continues to provide timely and helpful insight into public spending and accountability.

Welsh public services face decisions that will affect the delivery of services for many years. Our work demonstrates the need for redesign and transformation in the face of limited resource and growing demand. Neither are we shrinking from the prospect of redesign in our own work. In particular, I am keen to develop our audit programme in local government to add greater value without unnecessary burden or undue focus on process.

Again this year we have focused on the financial pressures public bodies continue to face. As we set out in our Strategy for 2013-2016, public service governance, financial management and innovation continue to be priorities in our work.

Regrettably, we have needed to report in the public interest, on a number of issues of governance in all sectors. For the first time, in one of these cases, we produced a joint report with Healthcare Inspectorate Wales. More recently, also with Healthcare Inspectorate Wales, we helped the Welsh Government develop a protocol for escalation and intervention in relation to NHS bodies.

We aim to disseminate learning from successes as well as failures and to encourage improvement by working with others to develop support and improvement tools. With more robust internal audit, financial management and governance failures can be more readily detected and quickly addressed by the organisations themselves. Our emphasis on sharing good practice and facilitating shared learning has also strengthened this year through our increasingly valued seminars and Good Practice Exchange.

We are in an era where patterns of delivery are being reconsidered across the public service landscape and we are all anticipating governmental responses to the Williams and Silk reports. Large public projects benefit from audit evidence and rigour at every stage (not just retrospectively). So, we want to improve our intelligence of strategic developments in each sector and have recently reorganised our senior management structure to strengthen relationships and better target our support to Welsh public bodies. I am pleased with the improvements that we have made to our own business planning and management arrangements, and would like to thank staff for their commitment and dedication.

I am grateful also for the support of our many colleagues in Wales and beyond, who share our commitment to improving the quality of life of the people of Wales, and who we work alongside in pursuit of that goal.

Huw Vaughan Thomas

Auditor General for Wales

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About us

The Auditor General and the auditors he appoints in local government are the statutory external auditors of most of the Welsh public sector¹. They are responsible for the annual audit of the majority of public money spent in Wales, including the £15 billion of funds that are voted annually by the National Assembly. Elements of this funding are passed by the Welsh Government to the NHS in Wales and to local government.

For the year to which this annual report and accounts relates, the Auditor General and his staff together formed the Wales Audit Office. The Auditor General was personally responsible for overall management and staffing and for procedures in relation to financial and other matters.

The Public Audit (Wales) Act 2013 established the Wales Audit Office as a corporate body with a Board of nine members. The National Assembly appoints the Chair and four other non-executive members to the Board on which the Auditor General and three employee members also sit.

The Board's main functions, which it assumed on 1 April 2014, are:

- providing resources for the Auditor General's functions, including employing staff and procuring other services;
- monitoring and advising the Auditor General;
- jointly preparing with the Auditor General an annual estimate and annual plan; and
- setting a fee scheme and charging fees in accordance with that scheme.

Further details on the Board and senior management are included in the Remuneration Report on [pages 42 to 49](#).

What we do

In a democracy, public bodies are accountable to the public and their elected representatives. To facilitate this accountability, the public and their representatives must be adequately informed about the activities of the public bodies and their use of public funds; they need information which is timely, impartial, accurate, comprehensive and clear.

Independent audit of the activities of public bodies and of the use of public funds by those charged with stewardship of those funds is an essential component of democratic accountability. External auditors independently examine whether public money is being managed wisely and is properly accounted for. Public sector audit involves more than an opinion on the accounts. It also covers issues such as regularity (whether public money is being used for approved purposes), propriety (how public business is being conducted) and value for money. Auditors carry out this work on behalf of the public and in the public interest. It is not part of auditors' functions to question the merits of government policy, but

¹ The Public Audit (Wales) Acts 2004 and 2013, the Government of Wales Acts 1998 and 2006, alongside a range of other legislation, provide the statutory basis for their work. The Auditor General will become the statutory external auditor of local government bodies in Wales when the current auditor appointments terminate.

auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy.

Audit adds value to society by:

- providing assurance on the governance and stewardship of public money and assets;
- offering insight on the extent to which resources are used wisely in meeting people's needs; and
- identifying and promoting ways by which the provision of public services may be improved.

However, external audit cannot act as a substitute for governments' and other public bodies' own responsibilities. It is for public bodies to ensure that their business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

Each year we deliver an extensive but proportionate programme of external audit work, alongside certain other functions. The overall programme includes audits of accounts, value for money examinations and studies, local government improvement audits and assessments, certification of grant claims and returns, and data matching.

We identify good practice from across the full breadth of our audit work and disseminate this through our Good Practice Exchange (a free web-based resource) and other media, including shared learning seminars.

Auditors undertake their work in accordance with the Auditor General's Code of Audit Practice, which prescribes the way in which audit functions are to be exercised, and embodies what appears to the Auditor General to be best professional practice.

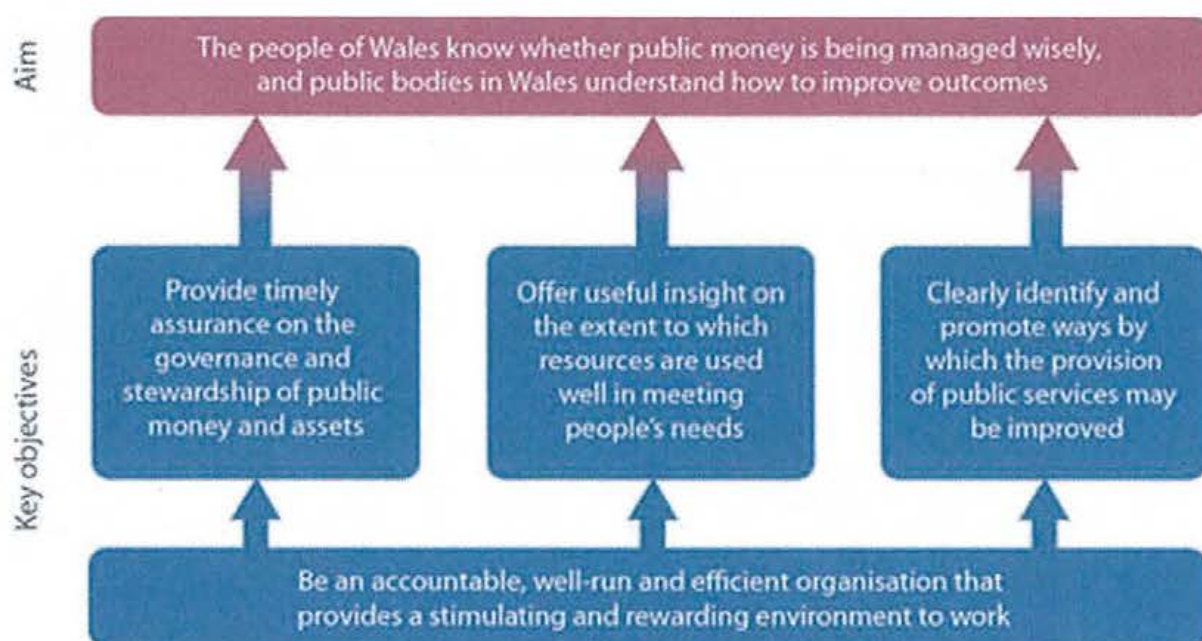
In 2013-14 the Auditor General's staff delivered approximately three quarters of the annual audit work. The Auditor General contracted out the remainder to private sector accountancy firms, and contracted in specialist skills and services to support delivery.

Our aim and key objectives

Our overall strategic aim and four key objectives for the period 2013 to 2016 are summarised below.

Our aim is focused on empowering the people of Wales and supporting public bodies in Wales through effective transfer of knowledge. It is expressed as an outcome to which we are a key contributor due to our wholly independent status, professional expertise, and extensive statutory rights of access to documents and information.

Our first three underlying key objectives focus on effectively achieving the threefold purpose of audit – providing assurance, offering insight and promoting improvement. Our fourth key objective underpins the first three; in order to deliver a high class audit service, the Wales Audit Office must be a well-run organisation which delivers value for money.



The key actions that we will take over the course of this strategy period in order to respond to our operating environment and achieve our aim and objectives are outlined below.

Key environmental factors	Actions we will take in response
We are in a period of financial constraint	Undertake our audit work with an austerity emphasis
Welsh policy continues to diverge through incremental devolution	Enhance our work on benchmarking and performance comparison, sharing of audit knowledge and exchange of good practice
Interest in the effectiveness of governance arrangements is growing and reporting requirements now have a wider scope	Provide further assurance on the effectiveness of governance arrangements and other issues of public interest
New public sector cross-cutting duties and standards have been and are continuing to be introduced in Wales	Report more comprehensively on sustainable development, on equality and on the use of the Welsh language
The external review landscape continues to evolve	Work more closely with other external review bodies and improve the way we run our business through a period of transition
We live in an increasingly networked society	Increase awareness of and engagement with our work, including through more effective use of information technology

Who we work with

The people of Wales

The National Assembly, chiefly through its Public Accounts Committee and Finance Committee

The Welsh Government

Public service providers in Wales and their representative bodies

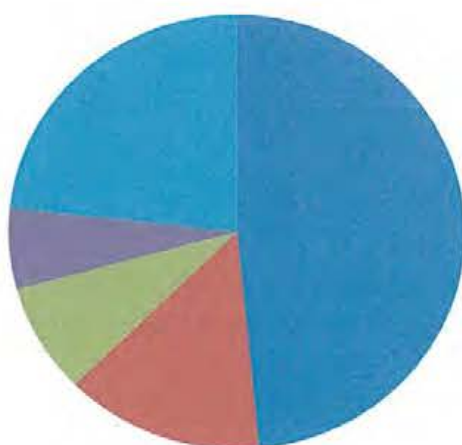
Other relevant external review bodies

Financial, environmental and social summaries including key performance indicators

Financial summary

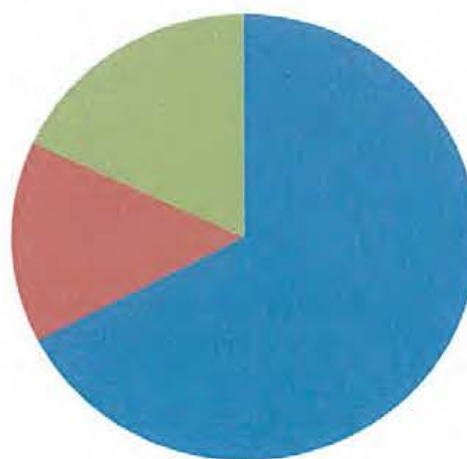
In 2013-14:

- We generated income of £18.0 million, including grant income of £1.4 million, and received financing from the Welsh Consolidated Fund of £5.4 million
- Income from fees charged to audited bodies totalled £16.6 million – a four per cent increase on the previous year due to additional work undertaken
- After taking into account the impact of the release of the VAT provision in 2012-13 (£2.4 million) and the distribution of our reserves to local government bodies (£1.6 million), our expenditure in the year increased by just over £1.0 million, £700,000 of which was due to a ruling by HMRC on our VAT status
- Staff costs increased by £310,000, largely as a result of recruitment during the year to fill staff vacancies, implementing our new governance arrangements, working as part of the Future Generations Bill Reference and Advisory Group, and meeting requests for additional work without delaying the delivery of our national studies programme
- In accordance with the provisions of the Public Audit (Wales) Act 2013, we will no longer be able to hold reserves. As a result, our accumulated reserves of £1.6 million will be distributed to local government bodies during 2014-15. The net resource estimate for 2013-14 was £5,431,000. Our actual net expenditure in cash terms in respect of that part of the business which is within the estimate regime was £5,094,000 due to a reduction in costs as compared to the estimate. As a result an amount of £337,000 will be repaid to the Welsh Consolidated Fund.



Income and financing in 2013-14:

- Local government audit fees
- NHS audit fees
- Central government audit fees
- Grant from Welsh Government
- Welsh Consolidated Fund finance



Expenditure in 2013-14:

- Staff costs
- Bought in services
- Other operating costs

£'000	2013-14	2012-13	2011-12
Income and resources			
Audit and inspection fees	18,015	17,193	18,911
Local government ²	12,794	12,366	13,213
NHS	3,302	3,239	4,029
Central government	1,919	1,588	1,669
Other income ³	27	23	27
Total income	18,042	17,216	18,938
Expenditure			
Staff costs	(15,291)	(14,981)	(14,855)
Bought-in services ⁴	(3,308)	(3,451)	(3,507)
Repayable to local government bodies ⁵	(1,633)	0	0
(Increase)/decrease in provision for taxation	0	2,392	(2,392)
Other operating costs	(4,093)	(3,221)	(2,962)
Corporation tax	(3)	0	23
Total expenditure	(24,328)	(19,261)	(23,693)
Total comprehensive net expenditure	(6,286)	(2,045)	(4,755)
Financing from the Welsh Consolidated Fund	5,431	4,740	5,303
Repayable to the Welsh Consolidated Fund	(337)	(268)	(1,945)
Change in taxpayers' equity	(1,192)	2,427	(1,397)
Taxpayers' equity at 1 April	1,192	(1,235)	162
Taxpayers' equity at 31 March	0	1,192	(1,235)

² Includes fees for audits of accounts, grants certification and improvement audit and assessment work, alongside grant funding of £1.4 million from the Welsh Government to support our improvement work.

³ Other income is as per the Statement of Comprehensive Net Expenditure plus bank interest.

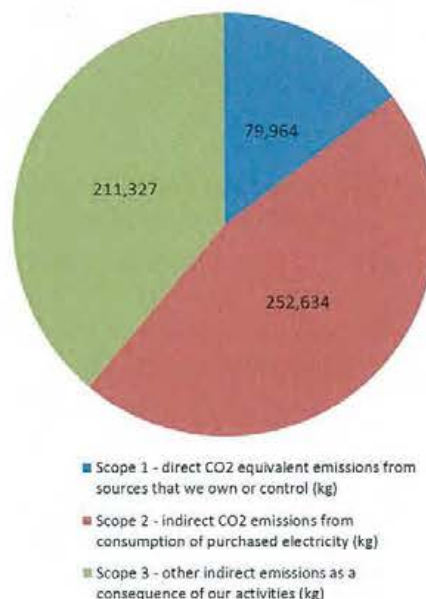
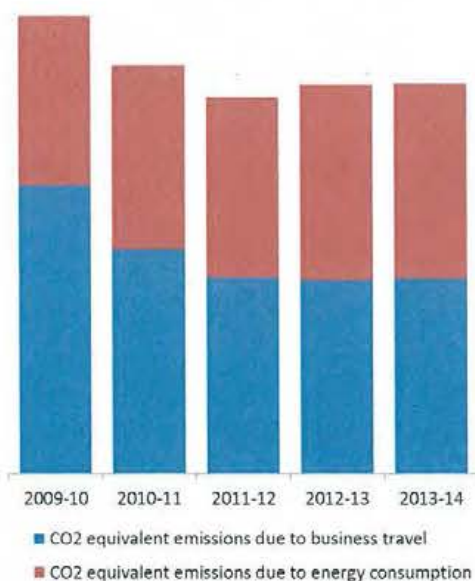
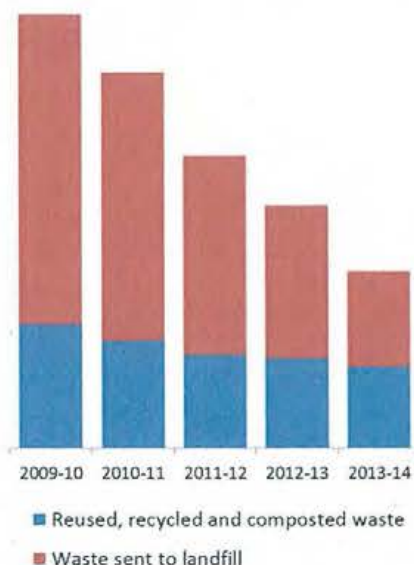
⁴ Mainly audit work contracted out to private sector accountancy firms.

⁵ The taxpayers' equity that had been built up prior to 2013-14 along with that earned during 2013-14 was in relation to audit work undertaken at local government bodies and, as outlined in the *Estimate of the Income and Expenses of the Wales Audit Office for the Year Ended 31 March 2015*, it has been deemed appropriate that this amount should be redistributed to those bodies. The resulting payment will be equivalent to between 15 and 20 per cent of the audit fees paid in 2013-14 by each local government body.

Environmental summary

In 2013-14, we:

- Achieved re-accreditation at Level 4 of the Groundwork Wales Green Dragon Environmental Standard at all three of our primary offices
- Reduced our production of waste by 27 per cent from last year and increased the proportion of our waste reused, recycled or composted to nearly a half
- Slightly reduced our consumption of paper, but slightly increased our consumption of water
- Maintained our CO₂ equivalent emissions due to business travel and energy consumption at the same level as the previous year
- Achieved an efficiency level for our use of office space similar to that achieved by the Welsh Government



	2013-14	2012-13	2011-12
Environmental management			
Level of Green Dragon accreditation	4	4	3
Water consumption			
Water consumption m ³	2,351 ⁶	2,322	1,684
Water consumption m ³ per WTE ⁷	10.1	9.9	7.5
Water supply costs £	4,348	3,336	2,763
Paper consumption			
Paper consumption in reams	2,325	2,385	2,465
Paper supply costs £	6,426	6,112	5,989
Waste			
Total waste kg	65,926	89,970	108,387
Reused, recycled, composted	30,370	33,630	34,709
Landfill	35,199	56,340	73,678
Hazardous	357	0	0
Reused, recycled, composted as % of total waste ⁸	46.1	37.4	32.0
Total disposal costs £	4,439	8,586	9,447
Greenhouse gas emissions⁹			
Total emissions kg CO ₂ e	543,925	512,242	496,172
Attributable to business travel	256,580	254,597	257,330
By car	232,035	241,726	242,742
By rail and air	24,545	12,871	14,588
Attributable to energy consumption	256,928	257,645	238,842
Electricity ¹⁰	252,634	251,265	232,776
Gas	4,294	6,380	6,066
Attributable to other ¹¹	30,417	0	0-
Total expenditure on business travel £	222,333	197,284	213,394
Total energy expenditure £	56,556	69,874	56,828
Efficiency of estate			
Cost per WTE £ ¹²	3,431	3,186	3,365
Cost efficiency ¹³ £ per m ²	285	265	260
Space efficiency m ² per WTE	12.0	12.0	12.9

⁶ Estimate due to billing period. The increase in consumption in 2012-13 and 2013-14 is most likely attributable to the delivery of a greater number of training and shared learning events at our offices.

⁷ Typical and best practice for water usage within an office is 9.3 m³ and 6.4 m³ respectively per Whole-Time-Equivalent (WTE) per annum (Environment Agency guidelines).

⁸ 69 per cent for the Welsh Government in 2012-13 (*State of the Estate Report 2012-13*, Welsh Government).

⁹ Calculated using DEFRA/DECC 2013 guidelines for company reporting.

¹⁰ Restated for previous years in alignment with changes to company reporting guidelines.

¹¹ Attributable to energy transmission and distribution, waste disposal and water usage and treatment – first calculated in 2013-14.

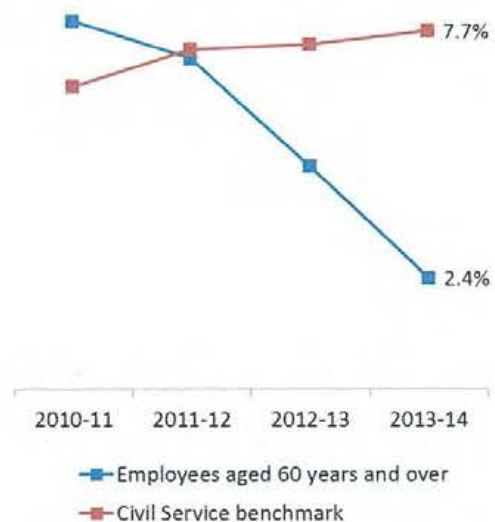
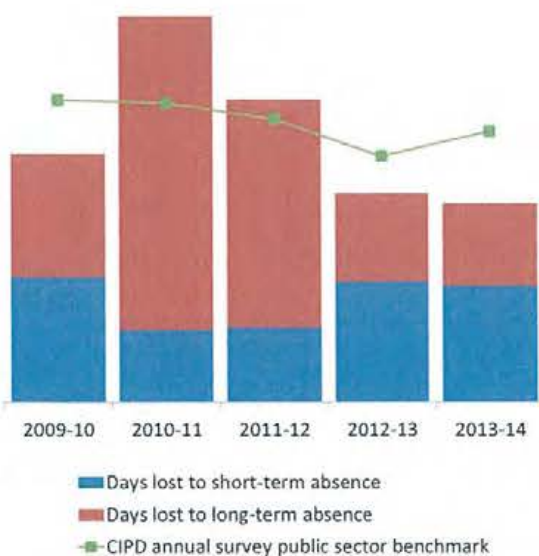
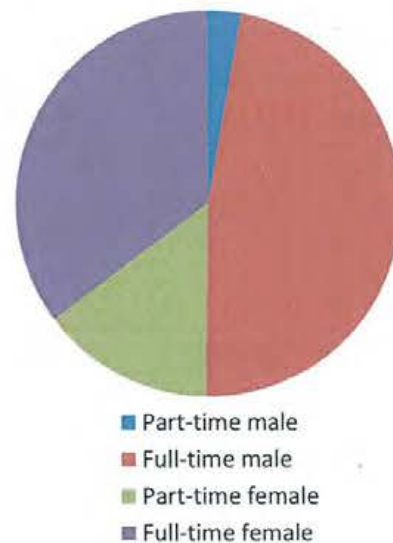
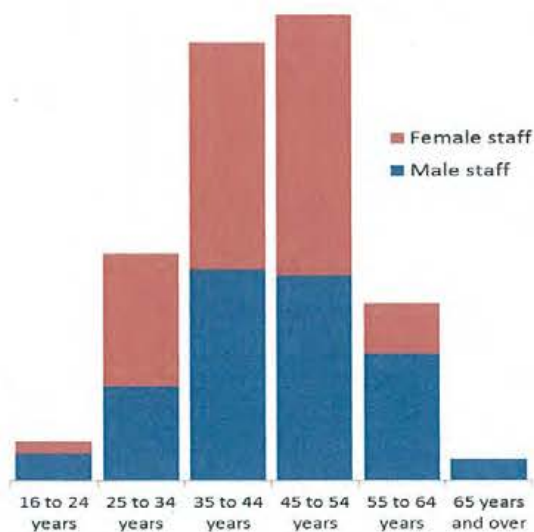
¹² Compared to £3,420 for the Welsh Government as of 31 March 2013.

¹³ Including rent, rates and other costs.

Social summary

In the 2013-14 financial year:

- Our workforce age and gender profile was similar to that of the Civil Service, but with a lower proportion of employees aged 60 years and over
- The proportion of part-time employees increased, but remained lower than that for the Civil Service
- We achieved a five per cent reduction in rates of sickness absence, including a reduction in the number of days lost to long-term absence
- Our annual labour turnover rate fell slightly but was comparable with the CIPD benchmark
- Around a quarter of staff in senior leadership team pay bands and a third of staff in management pay bands were female



	2013-14	2012-13	2011-12
Number of staff and remuneration			
Number of directly employed staff	247	251	254
Number of whole-time equivalents	233.8	234.5	225.6
Median staff annual gross salary and benefits in kind ¹⁴ £	43,499	45,964	46,347
Turnover			
Annual labour turnover rate ¹⁵ %	9.3	10.8	8.3
Attendance management			
Average working days lost per member of staff ¹⁶	6.4	6.7	9.7
Due to short-term absence	3.7	3.9	2.4
Due to long-term absence (periods of ≥21 days)	2.6	2.9	7.3
Diversity			
Female %	49.8	52.2	50.0
Aged less than 30 years ¹⁷ %	9.0	10.0	5.9
Aged 30 to 59 years %	88.6	85.2	87.0
Aged 60 years and over %	2.4	4.8	7.1
Working patterns			
Part-time employees as % of total ¹⁸	17.4	16.3	18.6
For men	5.6	3.3	11.1
For women	29.3	28.2	26.0
Employment contract type			
% of staff on permanent employment contracts ¹⁹	90.3	87.7	86.6
Grade distribution			
Staff in senior leadership team bands (9 to 11) %	5.2	5.2	5.1
Staff in management bands (6 to 8) %	21.9	21.5	22.5
Staff in other pay bands %	72.9	73.3	72.3
% staff in senior leadership team that are female	23.1	23.2	23.2
% staff in management that are female	35.2	35.2	35.1

Note: Figures in table at year end unless otherwise stated

¹⁴ £45,331 for the National Audit Office and £41,050 for Audit Scotland (as per 2012-13 published annual accounts).

¹⁵ 9.4 per cent median for public service organisations that responded to the 2013 CIPD *Resourcing and Talent Planning Survey*.

¹⁶ 8.7 days per employee per year for those public service organisations that responded to the 2013 CIPD annual *Absence Management Survey*.

¹⁷ *Annual Civil Service Employment Survey 2013* figures: approximately 10.0 per cent aged less than 30 years, 82.3 per cent aged 30 to 59 years, and 7.7 per cent aged 60 years and over.

¹⁸ 24 per cent for the Civil Service in 2013 (approximately 9 per cent for men only, 38 per cent for women only).

¹⁹ 89 per cent for those public sector employees included in CIPD's *Labour Market Outlook Winter 2012-13* – a representative survey of 2,000 people in employment, and 97 per cent for the Welsh Government (*Civil Service Statistics 2013*).

Providing assurance

In this section we have included some case study illustrations of how we provided timely assurance in 2013-14 on the governance and stewardship of public money and assets in Wales.

Audit of accounts

Public bodies must account for the money entrusted to them. The principal way they achieve this is through the production of timely and accurate annual accounts. The focus of our financial audit work is auditing these accounts and providing assurance to the public about the stewardship of public money.

In 2013-14, we issued reports on the accounts of over 800 public bodies in Wales. These included the Welsh Government and its sponsored bodies, NHS trusts and health boards, unitary authorities, fire and rescue authorities, national park authorities, police and probation authorities and trusts, pension funds, and town and community councils.

As in previous years, the vast majority of audited bodies' accounts were approved and opinions issued on them by the required deadline.

Auditors often suggested amendments to bodies' draft accounts to ensure they were presented correctly, and made many recommendations for improvement to those responsible for the management and oversight of the accounts.

In January 2014, we published a report which brought together the results of our audit of accounts work across most local government bodies for the previous financial year. Overall, the quality of accounts and supporting working papers had improved compared to 2011-12, but we highlighted some particular account areas where improvements are required.

We also published a report entitled *Improving Financial Management and Governance: issues from the Audit of Community Council Accounts 2011-12* in September 2013 which summarised the results of auditors' work at town and community councils for the 2011-12 accounts. Auditors continue to find common and fundamental issues of weak financial management and governance arrangements across a large number of town and community councils in Wales. To help such councils to improve their financial management and governance, the Auditor General intends to modify their audit arrangements for the 2015-16 audits.

Certification of grant claims and returns

Grants are a key source of funding in Wales. When making grant awards, funders set conditions requiring recipients to use the money only for the agreed purposes and under strict controls. If requested to do so, the Auditor General must make arrangements for certifying claims and returns in respect of grants paid or subsidies made.

In 2013-14, we certified 33 local government schemes, worth over £3 billion and involving over 780 individual claims. As a result of our work, one in three of those claims had to be adjusted (to correct an error) or qualified (to report a disagreement or an uncertainty over part of the expenditure claimed). The gross value of adjustments was £2.4 million and the potential value of qualifications was £15 million. We also certified European structural fund claims from the Welsh Government and its sponsored bodies with a total value of around £228 million for the year.

Review of governance arrangements at Betsi Cadwaladr University Health Board

In 2012, through our audit work, we raised a number of concerns about governance, accountability and service delivery issues at the Betsi Cadwaladr University Health Board. Our concerns were mirrored in the emerging results of a quality and safety review conducted by Healthcare Inspectorate Wales (HIW). We worked closely with HIW to monitor the Health Board's response to these issues but by March 2013, our concerns about the ability of the Health Board's collective leadership to tackle the challenges had risen to the extent that we felt an urgent joint review of the governance arrangements of the Health Board was necessary.

Joint review work was designed to bring together a number of strands of audit and inspection work in order to provide the Health Board with a single independent view of the issues it needed to address in order to strengthen its corporate, clinical and financial governance arrangements to the extent that they were sufficient to ensure the quality, safety and sustainability of services for the population served by the Board.

A combined project team, comprising financial and performance audit specialists working alongside HIW clinical governance experts, was swiftly mobilised and an intensive programme of fieldwork was undertaken at the Health Board during May, including file reviews, interviews and observation of Board and committee meetings.

After just eight weeks our joint report was published, through which we made 24 recommendations covering:

- the effectiveness of the Board and its sub-committees;
- management and clinical leadership structures;
- quality and safety arrangements;
- financial management and sustainability; and
- strategic vision and service reconfiguration.

Shortly after publication of the report, both the Chair and Vice-Chair of the Health Board stood down and the Public Accounts Committee held oral evidence sessions with various Health Board members, senior staff and Welsh Government officials. The resultant Committee report, published in December 2013, contained a further 21 recommendations to the Health Board and the Welsh Government.

Importantly, the impact of our work was not confined to just one Health Board. Immediately following the review the Welsh Government requested that all other NHS bodies in Wales undertake a self-assessment of their governance arrangements to provide assurance that they were not experiencing the same problems we observed at Betsi Cadwaladr University Health Board.

In addition, between late 2013 and early 2014, our staff worked closely with HIW and Welsh Government officials to develop a new protocol document entitled *NHS Wales Escalation and Intervention Arrangements*. The protocol, published in March 2014, sets out how the Auditor General, HIW and the Welsh Government will work together to identify and respond to serious issues affecting service delivery, quality and safety of care and organisational effectiveness across NHS Wales. Regular, open communication of information and emerging concerns between the three bodies should help with the early identification and addressing of issues through swift and co-ordinated action.

Scrutiny of requests to draw from the Welsh Consolidated Fund

The Welsh Consolidated Fund (WCF) is the main conduit for the receipt and distribution of money for the Welsh public sector. The majority of the money paid into the fund is provided by the UK Government, as authorised by the UK Parliament. The Auditor General's approval is needed for all payments out of the fund, following checks that proposed payments are in accordance with legislation and, where applicable, National Assembly budget motion authority.

The sums of money involved are large – around £1 billion a month during 2013-14. We completed the processing of nearly all WCF requests on the same day that we received them, and dealt with any discrepancies in requests as a priority.

Responding to issues that have been brought to our attention

Correspondence from the public, elected representatives and others that raises concerns about public business can inform our work programme by identifying issues for further investigation. It is our policy to respond to public concern promptly and in a fair, objective and professional manner.

Under the Public Interest Disclosure Act (PIDA), the Auditor General and the auditors he appoints in local government are recognised as 'prescribed persons' who can receive disclosures from individuals employed or formerly employed by audited bodies via 'whistle-blowing' arrangements. In 2013-14, we received a total of 324 communications via our whistle-blowing arrangements. Of these, 12 were considered to fall within the scope of PIDA and the remainder were classed as general or audit-related correspondence. Appropriate responses were provided to all those individuals who raised a concern with us.

The Auditor General also reports to the National Crime Agency any suspicion or knowledge of a person dealing in the proceeds of crime (money laundering) that he or his staff encounter during the course of their work.

Public interest reports on payments made to senior officers

Following the publication in March 2013 of a report in the public interest on pay rises awarded to senior officers at Caerphilly County Borough Council, we issued a number of other public interest reports during 2013-14.

The reports again focused on unlawful payments made to local government senior officers (mostly chief executives), including in relation to:

- buyout of car user and annual leave allowances (Caerphilly County Borough Council);
- an indemnity for a libel counterclaim (Carmarthenshire County Council); and
- payment of a supplement to senior staff who opted out of the Local Government Pension Scheme (Pembrokeshire County Council and Carmarthenshire County Council).

We highlighted the need for councils to follow lawful, robust and transparent processes and to take specific independent legal advice when novel and/or contentious arrangements are being considered.

In each case the Councils have accepted the recommendations in the reports. Following a variety of concerns being raised about the level of senior pay in the public sector in Wales, the National Assembly's Public Accounts Committee has launched an investigation.

In this section we provide some examples of where, in 2013-14, we offered useful insight on the extent to which resources are used well in meeting the needs of the people of Wales.

Studies with an austerity emphasis

In 2013-14, we placed increased emphasis through our audit work on how well public bodies are able to maintain or improve service delivery while facing significant cuts or changes to funding. In particular, we published three sector-specific reports that emphasised the importance of sound financial management and the need for public services to manage the potential impacts of funding changes or reductions on services and service users.

Health finances

The report *Health Finances 2012-13 and beyond* was published in July 2013 and looked at the financial position of the Welsh NHS across the year and its performance in achieving its key priorities and targets.

We highlighted that NHS bodies did break even in 2012-13 but only as a result of additional funding during the year. Many of the actions taken by NHS bodies in order to make savings were not viewed as being sustainable. In particular, we raised concerns about some health boards reducing activity at the end of the year. We also found that over the period the NHS has faced financial pressures, performance in some key areas, most notably waiting times for elective treatment, had deteriorated.

We concluded by giving consideration to the future prospects for the Welsh NHS and raised concerns about long-term sustainability given the slow progress being made in reconfiguring and transforming services. The Auditor General will publish a follow-up report in the summer of 2014, looking at NHS finances and performance across 2013-14.

Local government financial challenges

In our report *Meeting the Financial Challenges Facing Local Government in Wales*, published in January 2014, we set out the twin challenges facing local government in the coming years: real terms budget reductions and rising demand. The content of this report was drawn from a high-level analysis of financial and demand pressures, alongside our local audit work on testing individual councils' financial and strategic planning arrangements.

In general, councils have coped well to date, but cracks are showing. In the first two years of austerity, we observed that councils in Wales had faced a greater degree of protection than their counterparts in England but highlighted that this is unlikely to continue. While councils understood the scale of the challenges, many did not have clear plans to achieve the kinds of transformation and change that are needed if they are to respond effectively. In addition, we found evidence that councils were not able to track and understand the impact of their financial decisions on citizens and service users.

The Auditor General will build on this work with a series of reviews that will examine councils' overall financial resilience and the impact of financial pressures on individual council services.

Higher education finances

This piece of audit work was carried out against the backdrop of the introduction of higher tuition fees for students starting university in the 2012/13 academic year and changes in the flow of public funding to the higher education sector. While much of the media coverage of the report focused on the decision-making process surrounding the introduction of higher tuition fees, there were other important messages.

In the report we concluded that, overall, the Welsh Government and the Higher Education Funding Council for Wales had implemented the tuition fees policy effectively, and had done so at a time when both organisations had been managing the impact of reductions in their own running costs.

We recognised that higher education institutions face significant challenges and uncertainties in an increasingly competitive operating environment, but observed that institutions generally appeared to be in sound financial health and that their financial planning and management arrangements were evolving appropriately.

Memoranda for the Public Accounts Committee

During 2013-14, in addition to reporting on his programme of value for money studies, the Auditor General agreed to provide the National Assembly's Public Accounts Committee with factual memoranda to support Committee-led inquiries on topics of particular concern to Committee members. This new arrangement led to the publication of memoranda during the

latter part of the year on the Intra-Wales - Cardiff to Anglesey - Air Service, and on senior management pay across the Welsh public sector.

Intra-Wales – Cardiff to Anglesey – Air Service

The Intra-Wales Air Service started operating in May 2007 and, supported by Welsh Government funding, provides two daily weekday flights in both directions between Cardiff Airport and Anglesey Airport (RAF Valley). Through the memorandum we presented information about the origins of this service, the Welsh Government's procurement arrangements and the overall costs and performance of the service. The total value of the Welsh Government's funding to support this service was £9 million over the period 2007-08 to 2012-13. That total includes the subsidy paid to the commercial operator of the service and, among other things, costs associated with improvements to, and the operation of, the terminal building at RAF Valley.

Passenger data provided by the Welsh Government indicated that the number of passengers travelling on the service fell by over 40 per cent from 14,718 in 2008-09 to 8,406 in 2012-13, with the service capable of carrying a maximum of 18,720 passengers a year at full capacity. Against this backdrop, and with the current Air Service contract expiring in December 2014, the Committee has taken evidence from the Welsh Government regarding work that is underway to better understand the potential value for money of any further Air Service contract.

Senior management pay

All public bodies are required to report within their annual financial statements or remuneration report the pay of their senior staff. The exact nature of the information that needs to be disclosed varies. Our memorandum on senior management pay explained some of these differences to the Committee and brought together in one place a comparative analysis of pay rates for organisations across central government, local government and the NHS.

For example, in the memorandum we highlighted that the salaries of the Chief Executives of the 22 unitary authorities in Wales ranged from £109,000 to just under £195,000 in 2012-13. In taking forward its inquiry on this topic, the Committee has also considered senior pay rates in further and higher education and for registered social landlords, supported by some additional analysis prepared by Wales Audit Office staff.

Promoting improvement

In this section we highlight instances in 2013-14 where we have identified and promoted ways by which the provision of public services in Wales may be improved.

Good scrutiny? Good question

Scrutiny can play a key role in ensuring effective self-regulation and promoting improvement across public services. Effective overview and scrutiny arrangements are particularly important as public bodies respond to the challenge of maintaining or improving service delivery while facing significant cuts to funding.

In 2013-14 we carried out an improvement study aimed at helping local government to develop stronger overview and scrutiny arrangements. Our work focused on enabling councils to take stock of their improvement journey to date and created a baseline from which to further enhance their arrangements over the coming years. We also aimed to further inform and shape what are considered to be the key characteristics of effective scrutiny.

In undertaking the study we moved away from what might be considered a traditional 'outside looking in' audit approach. Instead, greater emphasis was placed on creating self-evaluation and peer learning exchange opportunities. By taking this approach, councils were able to develop a better understanding and appreciation of the effectiveness of their own and other councils' current overview and scrutiny arrangements, and identify potential opportunities for joint working and joint scrutiny in the future.

At the end of the study each council was provided with an up-to-date baseline of its own and other councils' scrutiny arrangements, informed by self-evaluations, regional workshops, feedback from partner councils, and local reports from auditors. Councils were then encouraged to present their baseline to their own members and decide on an appropriate action plan for improvement.

Following the study, we also jointly hosted a national *Scrutiny in the Spotlight* conference, alongside the Welsh Local Government Association, Welsh Government, Centre for Public Scrutiny and Cardiff Business School, and launched a social media campaign to stimulate further dialogue and sharing of good practice.

The study and conference have energised many councils to work together to help each other improve their scrutiny arrangements further. A national summary report of the study will be published later in 2014.

Waste management performance benchmarking

The term 'waste management' encompasses a range of front-line council services, which often provide a very visible example of how a council performs and how it communicates and works with residents and traders. The Welsh Government currently provides grants and other funding for council waste services, totalling about £270 million per year.

To help promote improvement in the provision of waste management services in Wales, for more than a decade we have facilitated performance benchmarking groups. An audit manager with specialist waste experience works in collaboration with the groups, either as a facilitator or as a 'critical friend' to the benchmarking process, alongside council waste managers and representatives from the Welsh Government, Welsh Local Government Association and other stakeholders. We add value to the work of the groups by providing a unique and impartial perspective on how well waste services are being delivered and how they could be improved. We assist in deliberations by drawing attention to related audit findings, recommendations and examples of good practice, and facilitate the sharing of learning across Wales and more widely.

We are currently involved with two separate benchmarking groups: an All Wales Waste Management Benchmarking Group and the more specialised Trade Refuse Benchmarking Group, which focuses on council contracts to collect waste and recyclable resources from commercial premises.

In March 2014, we made our fourth annual audit report to the Welsh Government's Ministerial Programme Board for Waste, drawing upon the understanding and insight that we have gained from our work with the benchmarking groups. In particular, we advised the Minister that improving the efficiency of collection services is the best way of reducing costs and improving the performance of kerbside food waste and kerbside dry recycling services. In 2015, we will report to the Minister on the best ways to improve the performance and cost of household waste recycling centres and kerbside residual waste services.

Our presence on the groups as independent external auditors adds credence and leverage to their work, and helps to ensure that improvements are carried through. The methods we use are transferrable, giving an opportunity that could benefit many other public services.

Covering teachers' absence

During autumn 2012, a team from the Wales Audit Office, working in conjunction with colleagues from Estyn, examined arrangements for covering teachers' absence in Welsh schools. We found that an estimated £54 million had been spent in 2011-12 on supply cover for classroom teachers who were absent, and that just under 10 per cent of all lessons had been covered. It was also established that expenditure on supply cover in Wales is rising.

Teachers may be absent for a variety of reasons including due to sickness, and to attend training and meetings. Sickness absence was estimated to account for nearly half of all the absences in 2011-12, and the Welsh average of seven days per teacher in 2011 was higher than the average of four and a half days in England. We also observed that the level of sickness absence varied significantly at a local level; some council areas averaged four days per annum while others averaged up to nine days. If sickness absence in Wales reduced to the average level in England it could reduce the number of covered lessons by around 60,000 and save over £9 million a year in cover costs.

Alongside identifying potential financial savings, our work with Estyn identified that pupils generally make less progress in lessons which are covered and that insufficient attention had been given to minimising the need for cover by schools, local authorities and the Welsh Government. We concluded that arrangements for covering teachers' absence are not sufficiently well managed to support learners' progress or provide the best use of resources. In a report published in September 2013, we recommended that more is done to minimise the need for cover, to improve cover arrangements, to improve the training and development of supply teachers and to manage resources more effectively.

The Welsh Government has accepted all our recommendations and is planning new guidance on cover arrangements. The Public Accounts Committee also took evidence on our findings and has prepared its own report based on our study.

Shared learning seminars on asset management

One of the ways in which we promote public service improvement is through an annual programme of shared learning seminars. The overarching theme for our seminars in 2013-14 was asset management. The Welsh public sector spends over £500 million per annum managing land and buildings worth some £12 billion. However, most organisations' assets are not keeping pace with changing demands and consequently do not deliver the best possible value for money.

Our Good Practice Exchange team ran a series of 12 asset management seminars in 2013-14, in conjunction with the Welsh Local Government Association, the Welsh National Assets Working Group, the Energy Savings Trust and the Chartered Institute of Public Finance and Accountancy (CIPFA), covering:

- energy management;
- information management and technology;
- fleet management;
- buildings management;
- land and asset transfer; and
- facilities management.

As part of the energy management seminar, Dŵr Cymru delivered a workshop outlining how it had undertaken water audits and retro-fitted its estate with water management systems, thereby achieving significant financial savings and reducing consumption. Dŵr Cymru also offered free water audits to all seminar delegates.

Since the seminar, Dŵr Cymru has undertaken a series of water audits for delegates from across the Welsh public sector. The savings identified through initial audits for just one of the delegates, HM Courts and Tribunal Service (Wales), are expected to be in excess of £35,000.

'By attending the energy management seminar, I was able to take advantage of the water audit opportunity as well as making key contacts in other public sectors to share further ideas. It was a morning well spent which has added real value to my organisation.'

Martin Rowlands, Head of Finance and Resources, HM Courts and Tribunal Service (Wales)



Joint working and international work

We are committed to working with, and building on, the existing co-operation between the UK national audit agencies to enhance the efficiency and effectiveness of public audit. We regularly work with colleagues at Audit Scotland, the Northern Ireland Audit Office, the Audit Commission and the National Audit Office on joint projects, and to share information and knowledge.

Over the last year, we continued to work closely with the three other main external review bodies in Wales – Estyn, the Care and Social Services Inspectorate Wales and Healthcare Inspectorate Wales.

From time to time, we represent Wales on the international stage in relation to our work. Our international work provides the opportunity to further develop our knowledge of accountancy and audit techniques, and acquire skills that are necessary to deliver our work. But, we are mindful that all such activities should support our business strategy, should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

Running the business

In this section we outline what we have done in 2013-14 to build on our work on being an accountable, well-run and efficient organisation that provides a stimulating and rewarding environment in which to work.

We are committed to embedding sustainable development as a central organising principle in the way we run our business (and in all our audit work). Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Over the past year, we have worked hard to further embed sustainable development in the way we run our business in a wide range of ways.

Financial management and efficiencies

Our work is funded mainly from fees charged to audited bodies and financing from the National Assembly via the Welsh Consolidated Fund. We use these funds to pay staff and to provide the necessary support to enable them to undertake their work effectively.

We have made significant improvements to our financial management arrangements in recent years and, in support of the requirements of the Public Audit (Wales) Act 2013, have refined our costing arrangements to ensure we comply with the revised fee-setting basis for our work.

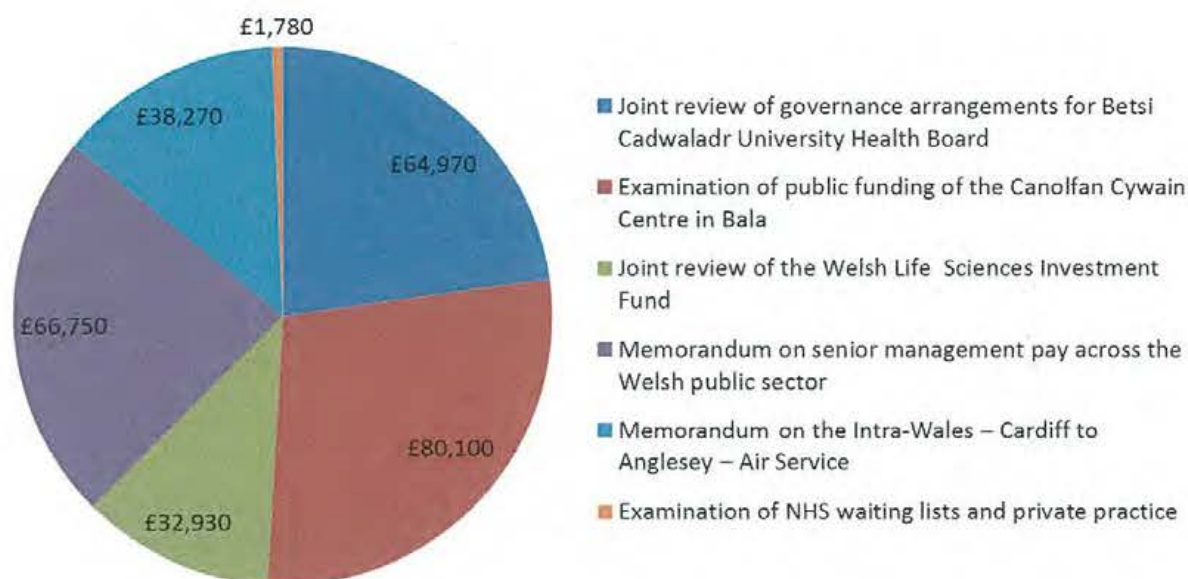
Since 1 April 2013, we have also had to implement a ruling from HMRC in respect of our VAT status. The ruling has led to an unavoidable increase to our cost base of approximately £700,000 per year which in turn has impacted on audit fees. However, we continue to explore opportunities to make savings to help offset these additional costs. In March 2014 we outsourced our payroll service to an external provider which will generate future efficiencies for the Wales Audit Office.

We aim to pay 95 per cent of supplier invoices within 30 days of receipt, based on continuous monitoring of payments. In the 2013-14 financial year 96 per cent of payments were made within 30 days of receipt of the invoice (compared to 97 per cent in 2012-13). From 1 April 2014, we will also monitor our performance against a 10 day payment target.

Details of how liabilities in respect of the Principal Civil Service Pension scheme have been treated in our accounts are included in the Remuneration Report (pages 42 to 49) and in Note 1(v) of the Notes to the Accounts. There are no liabilities in respect of payments made for stakeholder pensions.

During 2013-14, Baker Tilly, our external auditors carried out a value for money study in respect of our fleet arrangements at the request of the Public Accounts Committee. The cost of this work was £14,000.

In November 2012, the Public Accounts Committee approved a request from the Auditor General for £250,000 of additional financing to allow him to respond promptly to increasing requests for ad hoc work in 2013-14 without delaying the delivery of his national studies programme. A breakdown of the use of that contingency in 2013-14 is provided below. The costs of ad-hoc work in 2013-14 exceeded the contingency sum and totalled approximately £285,000.



Environmental stewardship

In 2013-14, we achieved re-accreditation at Level 4 of the Green Dragon Environmental Standard, demonstrating our ongoing commitment to effective environmental management.

We continued to meet our target to reduce car business mileage and associated carbon dioxide emissions by five per cent per annum, and established further mechanisms to enable accurate recording of emissions attributable to personal vehicles.

Over the year our production of waste reduced by 27 per cent, and we continued to increase recycling facilities at our primary office sites. Approximately half of our waste in 2013-14 was reused, recycled or composted, and at one of our offices we successfully piloted and introduced food waste recycling. We are currently reviewing our processes for weighing and sampling the composition of waste to ensure accurate reporting.

During the year we also made further investment in our video-conferencing facilities, as part of our commitment to support agile working and to reduce unnecessary travel and associated costs. This investment has resulted in a 17 per cent increase in usage of video-conferencing over the year, and contributed to an approximate 500 per cent increase in usage over a five-year period.

We also upgraded our suite of multifunction printers to more modern and energy efficient versions, helping us to be better equipped to undertake document scanning, reduce paper use and monitor trends in consumption.

Equality, diversity and dignity at work

Our *Strategic Equality Plan* outlines our continued commitment to equality. The Plan sets out how we seek to eliminate discrimination, advance equality of opportunity, and foster good relations in our work and our day-to-day activities²⁰. We are committed to providing a work environment that values the diversity of all people (both our own staff and those with whom we come into contact during our work), and we fully support the rights of people to be treated with dignity and respect.

In 2013-14, we carried out equality reviews and, where appropriate, impact assessments of a wide range of new and existing organisational policies, alongside our 2014-15 pay proposals.

We also formally adopted the Social Model of Disability within which disability is viewed as something which is imposed on people with impairments (for example a physical impairment, sensory impairment, learning difficult or mental health condition) through lack of access to buildings, information, communication, personal support, education and employment, and by the attitudes of others²¹.

Alongside being represented on the all-Wales Equality Exchange Network Group – a forum for sharing knowledge and good practice - representatives from our Equality Steering and Interest Groups attended the Stonewall Cymru Annual Workplace Conference in October 2013.

A full report on our progress on diversity and equality for 2012-13 is available on our website; a similar report for 2013-14 will be published in autumn 2014.

Promoting use of the Welsh language

The Wales Audit Office treats the English and Welsh languages on the basis of equality²². Our public documents are available in both English and Welsh, we have a fully bilingual website, and we deal with audited bodies and the media in both languages.

During the course of 2013-14, we increased our pool of Welsh speakers available for media and press interviews by implementing targeted media training. In addition, as part of a proactive effort to promote the Welsh language within the Wales Audit Office, a number of Welsh language software programmes have been made available to staff that are Welsh speakers and learners, with a view to facilitating and encouraging bilingual working.

In 2012-13, we conducted two Welsh language surveys to establish the language preferences of our audited bodies and the Welsh language abilities of our staff. In 2013-14, we have used the information from these surveys to assess whether we have enough staff with the necessary skills to meet the language preferences of our audited bodies. We have concluded that there is a growing risk that we will have insufficient staff with Welsh language skills to meet the needs of our audited bodies.

²⁰ For further information, please see our *Strategic Equality Plan* on our website.

²¹ Further information on the Social Model of Disability can be found on the Disability Wales website.

²² For further information, please see our *Welsh Language Scheme* on our website.

In response to these findings, a Task and Finish Group was established in November 2013 to ensure the Welsh language needs of our audited bodies are factored into our workforce and succession planning. The Group will also plan and coordinate the provision of tailored Welsh language training for staff.



Recruitment and work experience

We undertook a number of internal and external recruitment campaigns in 2013-14, including for professionally qualified staff to support the delivery of our work.

As a professional audit body and an accredited training provider with three professional accountancy bodies, the Wales Audit Office is also committed to a rolling programme of trainee recruitment. Through our annual recruitment campaigns we aim to attract the highest possible calibre of candidate. We appointed four audit trainees in 2013-14, who have now commenced their studies.

During the 2013-14 financial year, all our current trainees and technicians successfully moved on to the next stages of their studies, collectively achieving a 93 per cent first-time pass rate for examinations with the Institute of Chartered Accountants in England and Wales (ICAEW) and Association of Accounting Technicians. Two trainees were awarded ICAEW International Subject Orders of Merit in recognition of their high standards of achievement.

In addition to their professional studies, we provide our trainees and technicians with bespoke training and relevant work experience. During their training, they spend time working with various audit teams, making a key contribution to our overall success.

We also, through our links with Careers Wales and local schools and universities, offer work experience opportunities in the Wales Audit Office. During 2013-14, two students undertook work placements with us.

Dylan Rees was awarded the Knox prize for obtaining the highest mark worldwide in the Financial Reporting paper in the ACA's December 2013 exams, and Neall Hollis was awarded the Railton prize for obtaining the highest mark worldwide in the Business Strategy paper.

'These really are fantastic achievements and they demonstrate the high calibre of students that we have on the Wales Audit Office Trainee Scheme. I hope that this news will encourage other students to pursue a career in public sector audit and to apply for our Trainee Scheme.'

Huw Vaughan Thomas, Auditor General for Wales

Employee engagement and well-being

We are committed to engaging effectively with, and encouraging a healthy lifestyle and a good work-life balance amongst our staff.

Towards the end of 2013 we carried out a survey to obtain a comprehensive understanding of employees' views and perceptions of what it is like to work at the Wales Audit Office. Seventy-one per cent of staff participated in the survey – a significant increase on the 53 per cent participation rate for a similar survey carried out in 2011-12. Members of the new Wales Audit Office Board, management and our survey development group subsequently met with staff across Wales to discuss the findings in detail, and develop the leadership response.

At the end of the year, we also drew our intensive culture and leadership development work to a close, mainstreaming this activity, with the new senior leadership team taking the lead going forward. The programme has allowed us to look closely at culture and leadership, develop a stronger and more collaborative senior leadership ethos and make significant improvements in relation to empowering staff to deliver, engagement between staff and the leaders of the organisation and streamlining our business processes. It also supported the redesign of the senior management structure.

We closely monitor rates of sickness absence and have in place a range of mechanisms for supporting successful return to work. An average of 6.4 days per employee were lost to sickness absence during the reporting year ending 31 March 2014; a five per cent reduction from the previous year and a figure which compares favourably with the average of 8.7 days per employee per year for those public service organisations that responded to the 2013 CIPD annual *Absence Management Survey*.

An employee assistance programme is available via either a 24-hour telephone service or through an online facility. The employee assistance programme provides staff with professional advice and emotional support on a range of matters.

Learning and development

We continue to invest heavily in staff learning and development to support our staff in the delivery of their work. In 2013-14, the average amount of training provided per employee increased from seven to eight days during the year. Some of the training was designed and

delivered in-house, and where appropriate and cost-effective, external training support was also commissioned to deliver training to our bespoke requirements.

During 2013-14, we continued with the second phase of our *Ignite* leadership and cultural development programme. The programme focuses on achieving results through effectively managing and motivating teams, and combines bite-sized learning sessions with case study fieldwork. We continue to receive very positive feedback from *Ignite* participants, and the programme will enter its third phase of delivery in 2014-15.

The Wales Audit Office also continues to actively encourage and support applications from staff to participate in the Public Services Management Wales annual summer and winter schools.

Working with the third sector

Ignite, our leadership and management development programme, includes a live case study exercise, working with a charity or other third sector organisation. The case study typically includes intensive service review and developing solutions to real problems.

During the 2013-14 financial year, our staff worked on a case study with RNIB Cymru.

'It was a great opportunity and privilege to work with the Wales Audit Office as the case study for the Ignite Management Development Programme.'

The team provided expertise across several disciplines; their commitment, attention to detail and communication skills were commendable. The team presented a range of solutions to the challenge after reviewing reports, speaking to patients, service providers and policy makers. The team were challenging and honest and a pleasure to work with, I would highly recommend this programme to colleagues.'

Ceri Jackson, Director, RNIB Cymru

Community and charity work

The Wales Audit Office recognises the benefits that community and charity work by staff can bring to the wider community and applauds its staff for their individual efforts. Staff can apply the skills they have developed in the workplace and can develop new skills, whilst improving their morale, physical health and work-life balance.

Subject to operational requirements we support employees who wish to undertake community or charity activities such as community care work, environment work and conservation projects, fundraising for community projects and charities, and the administration of public events. Staff are also able to participate in a 'give as you earn' scheme.

In 2013-14, our staff held a number of internal events which raised around £1,500 for charity. In addition, in recognition of the benefits that community and charity work by staff can bring to the wider community, the Auditor General and new Wales Audit Office Board decided to support the idea of a Staff Charity. A charity will be chosen each year by staff vote and will be the focus for a range of fundraising activities and opportunities for learning. At our staff conference in January 2014, staff chose the charity *Changing Faces* as the focus for their fundraising activities in 2014-15.

Openness and transparency

We are committed to openness and transparency in the way we operate as a business. The Auditor General and the Wales Audit Office have adopted the Model Publication Scheme prepared and approved by the Information Commissioner. The Scheme commits us to making certain information routinely available to the public – for further information please see our website.

In the 2013-14 financial year, we received 61 requests for information. In only one case did we not meet the statutory deadline, and this was because auditors chose to provide a response at the relevant council's audit committee. We were not subject to any reviews in 2013-14 by the Information Commissioner.

Future focus for our work

Undertaking our audit work with an austerity emphasis

Devolved public funding in Wales continues to fall in real terms, with particularly large reductions in capital funding. Financial constraint by national governments has inevitable consequences for local services. Commentators agree that the impact of these spending decisions will be felt for some years to come and certainly beyond the tenure of the current legislatures in Cardiff and Westminster.

In times of financial constraint and austerity like these, the emphasis of our audit work must necessarily be adjusted. Increased emphasis will be placed on how well public bodies are able to maintain or improve service delivery while facing significant cuts to funding. For the period of our current strategy our audit work will focus on maximising the contribution we make to helping public bodies cope with, and succeed despite, the impact of funding reductions. And we ourselves are committed to seeking to do more with less and working harder as well as smarter.

Enhancing our work on benchmarking and performance comparison, sharing audit knowledge and exchange of good practice

Since devolution, successive Welsh administrations have continued to diverge from Westminster in a number of significant policy areas. A range of shared and innovative service models are currently being explored. In addition, in January 2014, the Commission on Public Service Governance and Delivery reported that there is a need for a step change in the performance and delivery of public services in Wales, and made a broad range of recommendations for improvement.

External review bodies, and the bodies they review, need to be able to effectively assess whether changes to the ways in which services are designed and delivered offer better value for public money while at the same time maintaining or improving service quality. A critical aspect of this is benchmarking - comparing business processes and seeking robust performance comparison on outcomes. Another is the facilitation of exchange of learning and good practice.

Over the period of our current strategy, as Welsh policy and service delivery models continue to diverge both at a local and national level, we will undertake benchmarking including performance comparison of outcomes more routinely as part of our audit work, while acknowledging the economic, social and cultural differences that exist across Wales. We will also progressively and substantially increase the extent to which we stimulate and facilitate the sharing of audit knowledge and good practice.

Providing further assurance on the effectiveness of governance arrangements and other issue of public interest

Good governance, accountability and transparency are a cornerstone of the Welsh Government's approach to improving public services. However, we have recently published reports in the public interest on a number of issues, often in relation to failures in the governance arrangements of public bodies. Most public bodies must now report on their governance arrangements in a published annual Governance Statement. Governance Statements have replaced the previously required Statements of Internal Control, having a wider scope and embracing the whole way that public bodies are managed and run.

In alignment with increased public interest in the effectiveness of governance arrangements and the broader scope for reporting requirements, we intend to revise our audit framework over the period of our current strategy, with a view to providing further assurance on the effectiveness of governance arrangements and on other issues of public interest. In particular we will focus on further developing and maximising the collective value of the various aspects of our work, whilst ensuring that the approach taken at each audited body is proportionate and individually tailored.

Reporting more comprehensively on sustainable development, on equality and on the use of the Welsh language

The Welsh Government has set out its intention to legislate to make sustainable development the central organising principle of the Welsh Government and public bodies in Wales. The proposed sustainable development duty follows on from the statutory public sector equality duties introduced by the Equality Act 2010 and related legislation specific to Wales. In addition, the Welsh Language (Wales) Measure 2011 makes provision for the setting of standards for public bodies relating to the promotion and facilitation of the use of the Welsh language.

During the period of our current strategy we will seek to address sustainable development, equalities and Welsh language considerations more comprehensively in our audit reporting. We will work closely with other parties, including Welsh Government officials, on developing a reporting framework that is proportionate and places reliance on the work of other external review bodies, where appropriate. Similarly, we as a public sector body will deliver and demonstrate compliance with such duties and standards, through the way we run our business.

Working more closely with other external review bodies and improving the way we run our business through a period of transition

Notwithstanding the essential requirement for auditor independence, there is an increasing commitment to and UK-wide demand for joined-up working between external review bodies; for making best use of combined resources and sharing information more effectively to support robust and timely assessments of public service provision. The current Programme of Government includes a commitment to review the framework for audit, inspection and regulation in Wales.

While maintaining the need for auditor independence, and recognising differences in constitution, statutory remit and strategic objectives, we will work more closely with other external review bodies during our current strategy period to ensure we make best use of our combined resources and maximise our collective impact.

We will also work to continually improve the way we run our business and ensure the transition to new governance arrangements for the Wales Audit Office is as seamless as possible, with limited impact on our audit work.

Increasing awareness of and engagement with our work, including through more effective use of information technology

Digital technology offers new opportunities for people to interact with and influence all levels of government. It also offers new models for public service delivery and new ways of public engagement. With the rapid development of technology, the public expects to interact with public bodies as easily as internet banking or online shopping. Audit agencies need to stay abreast of technological developments and take advantage of new opportunities to maximise awareness of and engagement with our work, to gather intelligence and report on their findings.

For the period of this strategy we will actively seek to increase awareness of and engagement with our work to maximise its impact. To this end we will seek to make more effective use of information technology, including web-based applications and social media where appropriate, while maintaining use of a wide range of other forms of communication, including face-to-face exchange of information.



Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer

18 June 2014

STATEMENT OF ACCOUNTS

Remuneration Report

Remuneration policy

Auditor General for Wales

The Auditor General's remuneration is determined by the National Assembly and, in accordance with the Government of Wales Act 2006, is met from the Welsh Consolidated Fund (WCF). For enhanced transparency the remuneration of the Auditor General is disclosed in this Remuneration Report.

Wales Audit Office Board

In accordance with the Public Audit (Wales) Act 2013²³ (the 2013 Act) the non-executive members of the new Wales Audit Office Board were appointed by the National Assembly in October 2013. The remuneration of the non-executive members of the Wales Audit Office Board is determined by the National Assembly, and in the case of the Chair, is met from the WCF in accordance with the 2013 Act. Board remuneration is non-pensionable. For enhanced transparency, the remuneration of the Chair of the Wales Audit Office Board is disclosed in this Remuneration Report.

Non-Executive committee members

Prior to the establishment of the Wales Audit Office Board, a Shadow Board and three governance committees were put in place to prepare the organisation for the implementation of the 2013 Act. More information on these committees is included in the Annual Governance Statement on pages 51 to 64. The remuneration of the non-executive members of the Wales Audit Office committees was determined by the Auditor General prior to the establishment of the new Wales Audit Office Board. This remuneration was non-pensionable.

²³ Schedule 1 Part 1

Wales Audit Office staff

The Auditor General was permitted by legislation to appoint such staff as he considers necessary for assisting him in the discharge of his duties. The remuneration of members of the Executive Committee was determined by the Auditor General. The remuneration terms for other staff of the Wales Audit Office were set by the Wales Audit Office's Executive Committee. Remuneration of all members of staff is subject to consultation with trade unions under a collective agreement. From 1 April 2014, all members of staff will be employed by the Wales Audit Office on such terms and conditions as the Board determines.

Wales Audit Office staff normally hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Remuneration details

The following sections provide details of the remuneration and pension interests of the Auditor General and the most senior management (ie, Executive Committee members) of the Wales Audit Office, along with members of the Wales Audit Office Board and previous non-executive committees.

Auditor General for Wales

The Auditor General's salary costs are a direct charge on the WCF and are not therefore paid by the Wales Audit Office. The current Auditor General, Mr Huw Vaughan Thomas, was appointed by Her Majesty the Queen and took office on 1 October 2010 for a non-renewable period of eight years.

The gross salary cost of the Auditor General during 2013-14 was £151,500 (2012-13: £150,000) and employers' pension cost was £23,303 (2012-13: £21,675).

Mr Huw Vaughan Thomas has opted to contribute to a partnership pension account (a form of personal stakeholder pension to which an employer contributes). Total contributions to this account during 2013-14 were £27,217 (including employer contributions of £23,303 and member contributions of £3,914) (2012-13: £24,973 including employer contributions of £21,675 and member contributions of £3,298).

The following information in the Remuneration Report is subject to audit.

Senior management

The Executive Committee was chaired by the Auditor General and additionally during 2013-14 comprised:

	Date of appointment to Wales Audit Office or precursor organisation	Date of appointment to post	Date of termination	Contract
Gillian Body (AAG ²⁴ Performance Audit)	02/09/1981	01/12/2009	N/A	Permanent
Anthony Barrett (AAG Financial Audit)	24/01/2001	01/12/2009	N/A	Permanent
Kevin Thomas (AAG Resources)	26/10/1992	01/12/2009	N/A	Permanent

Each member of the Executive Committee is subject to a periodic performance review. The notice period for each member is 12 weeks. Early termination, other than through misconduct, would result in the individual receiving compensation on loss of office.

From 1 April 2014 the Executive Committee will be replaced by a Management Committee which will comprise each of the above staff members along with the Director of Finance and two sector leads.

Senior managers' remuneration details

The following tables set out remuneration information in relation to members of the Executive Committee and also show how this compares to median salary across the Wales Audit Office.

	Year to 31 March 2014						Year to 31 March 2013					
	Salary Bands of £5,000	Benefits in kind To nearest £100	Taxable Expenses To nearest £100	Total Excl Pension Bands of £5,000	Pension contribution Bands of £2,500	Total Remuneration Bands of £5,000	Salary Bands of £5,000	Benefits in kind To nearest £100	Taxable Expenses To nearest £100	Total Excl Pension Bands of £5,000	Pension contribution Bands of £2,500	Total Remuneration Bands of £5,000
Gillian Body	120-125			120-125	27.5-30.0	150-155	115-120	0	0	115-120	27.5-30.0	145-150
Anthony Barrett	115-120	4,600	19,800	140-145	27.5-30.0	165-170	110-115	4,500	13,300	130-135	27.5-30.0	155-160
Kevin Thomas	105-110	4,600	16,100	125-130	25.0-27.5	155-160	105-110	4,200	15,000	120-125	25.0-27.5	150-155

²⁴ Assistant Auditor General

The relationship between the remuneration of the highest-paid director and the median remuneration of the workforce is as disclosed in the following table.

	Year to 31 March 2014	Year to 31 March 2013
Band of highest-paid director's total remuneration excluding pension contributions (£,000)	140-145	130-135
Median total remuneration based on FTE staff (excluding pension contributions)(£)	43,499	45,964
Remuneration ratio	3.225	2.870

In 2013-14, no employees (2012-13: none) received remuneration in excess of the highest-paid director. Remuneration ranged from £20,340 to £142,960 (2012-13: £14,500-£131,900). Total remuneration includes salary, transport allowance and benefits-in-kind. In the case of the highest-paid director it also includes taxable expenses. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

There is no requirement to disclose the salary of the Auditor General as he is paid directly from the Welsh Consolidated Fund and not by the Wales Audit Office. For enhanced transparency his total remuneration (excluding pension contributions) was £151,500 which represented 3.483 times the median total remuneration for the Wales Audit Office (2012-13: £150,000, ratio 3.263).

Salary

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Wales Audit Office and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Wales Audit Office and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument.

The Wales Audit Office provides a death in service benefit equivalent to a payment of one year's salary for any member of staff who dies whilst in the employment of the Wales Audit Office. The annual cost of this scheme in 2013-14 was £11,424 (2012-13: £12,658). This is a group insurance policy and as such cannot be directly attributed to any one member of staff and hence is excluded from the table above.

No bonuses were paid to any members of the Executive Committee.

Taxable expenses

As disclosed in Notes 15 and 19, the accounts include a provision for a PAYE settlement with HMRC in respect of the Wales Audit Office not operating PAYE over certain expense payments made to some groups of staff prior to 2012-13. The provision includes taxation and national insurance contributions in respect of expenses paid to Kevin Thomas and Anthony Barrett for travel to a main place of work, and for 2011-12 additionally included fuel scale benefit charge. The tax-inclusive value of these payments is disclosed in the above table and the appropriate payment made to HMRC.

Information on the expenses of Executive Committee members is published on the Wales Audit Office website at www.wao.gov.uk/openness-and-transparency/hospitality-and-expenses.

Senior management pension details

	Accrued Pension at pension age as at 31/3/14 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/14	CETV at 31/3/13	Real increase in CETV	Employer contribution to partnership pension account
	£,000	£,000	£,000	£,000	£,000	Nearest £100
Gillian Body	45-50 plus lump sum of 140-145	(5-10) and lump sum of (20-25)	919	1,004	(151)	0
Anthony Barrett	35-40	0-5	523	458	16	0
Kevin Thomas	40-45	0-5	572	515	19	0

Civil service pensions

Pension benefits are provided through the Principal Civil Service Pension Scheme. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a final salary scheme (classic, premium or classic plus) or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by funds voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and for 2013-14 ranged between 1.5 per cent and 6.25 per cent of pensionable earnings for classic and 3.5 per cent and 8.25 per cent for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April

2014. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on his or her pensionable earnings during his or her period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between three per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of three per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice.gov.uk/pensions.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Wales Audit Office Board remuneration

In accordance with the 2013 Act remuneration for Board members is determined by the National Assembly. Board members were appointed in October 2013 and the appointments are for no more than four years. No person may be appointed more than twice. Board members are able to claim for their travel and expenses. The personal tax liability in respect of these expenses is settled by the Wales Audit Office under a PAYE Settlement Agreement with HMRC. The tax-inclusive value of these expenses is disclosed in the following table.

Figures for 2013-14 represent totals from the date of appointment in October 2013 to 31 March 2014.

	Remuneration		Tax-inclusive expenses		Total	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
	£	£	£	£	£	£
Steven Burnett ²	5,746	-	2,838	-	8,584	-
David Corner ²	5,746	-	3,029	-	8,775	-
Isobel Garner (Chair) ¹	13,508	-	1,571	-	15,079	-
Christine Hayes ²	5,746	-	1,504	-	7,250	-
Peter Price ²	5,746	-	166	-	5,912	-
Total	36,492	-	9,108	-	45,600	-

¹ Ms Garner, as Chair of the new Wales Audit Office Board, is appointed by the National Assembly and receives no remuneration from the Wales Audit Office other than reimbursement of travel and expenses. Her remuneration has been disclosed for enhanced transparency (full year equivalent remuneration £25,000).

² All other Wales Audit Office Board members receive full year equivalent remuneration of £12,500 which is met by the Wales Audit Office.

Non-executive committee members' remuneration

The following table set out the remuneration and expenses of the non-executive members of Wales Audit Office committees prior to the establishment of the Board. Non-executive committee members were able to claim for their travel and expenses. The personal tax liability in respect of these expenses is settled by the Wales Audit Office under a PAYE Settlement Agreement with HMRC. The tax-inclusive value of these expenses is disclosed in the table.

	Remuneration		Tax-inclusive expenses		Total	
	2013-14 £	2012-13 £	2013-14 £	2012-13 £	2013-14 £	2012-13 £
Rosamund Blomfield-Smith ¹	7,000	7,000	2,518	2,122	9,518	9,122
Dr Michael P Brooker ¹	7,000	7,000	331	369	7,331	7,369
Steven Burnett ²	2,681	5,000	-	1,328	2,681	6,328
Mary Champion ¹	3,750	5,000	340	262	4,090	5,262
Christine Hayes ²	2,681	2,487	-	-	2,681	2,487
Dr Elizabeth Haywood ¹	5,000	5,000	-	-	5,000	5,000
Michael Heap ¹	5,000	5,000	-	-	5,000	5,000
Peter Lains ³	-	3,664	572	638	572	4,302
Gilbert Lloyd ⁴	7,250	5,393	-	-	7,250	5,393
Denver Lynn ⁵	-	-	3,947	2,358	3,947	2,358
Dr Arun Midha ¹	3,750	5,000	-	-	3,750	5,000
Deep Sagar ¹	14,176	3,685	2,477	2,696	16,653	6,381
Canon David Stanton ¹	5,000	5,000	1,383	1,393	6,383	6,393
Haydn Warman ¹	3,750	5,000	-	-	3,750	5,000
Total	67,038	64,229	11,568	11,166	78,606	75,395

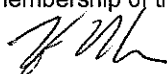
1 Mrs Blomfield-Smith, Dr Brooker, Mrs Champion, Dr Haywood, Mr Heap, Dr Midha, Mr Sagar, Canon Stanton and Mr Warman were members of the Wales Audit Office Shadow Board and/or its committees prior to the appointment of the new Wales Audit Office Board in October 2013. Mr Sagar received additional remuneration in respect of extra work carried out during the transition period.

2 Mr Burnett and Mrs Hayes were members of non-executive committees prior to their appointment to the new Wales Audit Office Board in October 2013.

3 Mr Laing's term of office came to an end in October 2012.

4 Mr Lloyd joined the former ARMC in July 2012. He was subsequently appointed as the Chair in which capacity he joined the Shadow Board. He became an independent member of the new ARMC in January 2014.

5 Mr Lynn was a member of the ARMC prior to the appointment of the new Wales Audit Office Board. He is a Director of the Northern Ireland Audit Office and received no remuneration from the Wales Audit Office for his membership of this committee other than reimbursement of travel and expenses.



Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer

18 June 2014

Statement of Accounting Officer's Responsibilities

Under paragraph 13(1) of Schedule 8 to the Government of Wales Act 2006, HM Treasury has directed the Auditor General to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. A new direction was obtained for the 2010-11 Statement of Accounts and remains in force for the 2013-14 Accounts. A new direction will apply for 2014-15 in recognition of the Public Audit (Wales) Act 2013.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Auditor General and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

For the 2013-14 accounts, the Auditor General was designated as the Accounting Officer of the Wales Audit Office under paragraph 16(1) of Schedule 8 to the Government of Wales Act 2006. The Auditor General's responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the available resources are set out in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly under paragraph 16 of Schedule 8 to the Government of Wales Act 2006.

Annual Governance Statement 2013-14

This statement sets out the basis on which the Wales Audit Office is governed and managed and how it is accountable for what it does. During the year, significant governance changes have been introduced by the Public Audit (Wales) Act 2013 (the 2013 Act), as explained in this statement.

Scope of responsibility

1. As the Accounting Officer I am personally responsible for the overall organisation, management and staffing of the Wales Audit Office²⁵. I must ensure that the Wales Audit Office has a high standard of financial management and that its financial systems and procedures promote the efficient and economical conduct of business, safeguarding financial propriety and regularity.
2. In discharging these responsibilities I must maintain a sound system of internal control that supports the achievement of my policies, aims and objectives, facilitates the effective exercise of my functions and which incorporates effective arrangements for managing risk.
3. I must also establish appropriate arrangements to receive formal comments and advice on the quality and operation of the Wales Audit Office's governance arrangements, including via independent external contribution and particularly with regard to matters of risk and control and to my behaviour and that of my staff.
4. The full scope of my responsibilities was described in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly to which I was accountable in my capacity as Accounting Officer and which appointed my external auditor. During the year, accountability for fulfilling my responsibilities as the Accounting Officer transferred to the National Assembly's Finance Committee which issued a new memorandum on 31 March 2014. This reflects revised governance arrangements under the 2013 Act which come fully into force from 1 April 2014.
5. As Auditor General I am the external auditor of, or appoint auditors to, most public bodies in Wales. I also examine how those bodies manage and spend public money, including whether they achieve value in delivering services. In fulfilling this role I am independent of both the National Assembly and of the Welsh Government.

²⁵ Until 31 March 2014

The governance framework

6. The governance framework comprises the systems, processes, culture and values by which the Wales Audit Office is directed and through which it is accountable for its activities. It enables the Wales Audit Office to monitor the achievement of its strategic objectives and to evaluate whether those objectives have led to the delivery of economic, efficient and effective services.
7. The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It therefore provides reasonable rather than absolute assurance of effectiveness.
8. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Wales Audit Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Wales Audit Office for the year ended 31 March 2014 and up to the date of approval of the annual report and accounts. It accords with HM Treasury guidance and is being updated to reflect the new governance arrangements under the Wales Audit Office Board.
9. The governance framework is designed to preserve my independence as Auditor General and to balance that independence with my accountability for the public money I spend.
10. For the period covered by this governance statement, the Wales Audit Office was defined as the Auditor General and his staff. All legal powers, rights and duties were vested in the Auditor General.
11. However, on 29 April 2013 the Public Audit (Wales) Act passed into law. On 4 July 2013, certain provisions of the 2013 Act, including that which established the Wales Audit Office as a corporate body, were commenced by order. This allowed the National Assembly to appoint five non-executive members of the Wales Audit Office, a process which it completed on 17 October 2013. These appointments were necessary to ensure that the Wales Audit Office could prepare for full commencement of the 2013 Act's provisions from 1 April 2014 when, amongst other responsibilities, it became the employer of staff and the holder of all other resources.
12. The provisions commenced on 4 July also included those which appointed me as a member of the Board and the Chief Executive of the Wales Audit Office.
13. This transition period added a degree of complexity to my governance framework. From 1 April 2013 until the National Assembly's appointment of non-executive members in October, a Shadow Board operated under a voluntary arrangement I established in March 2012. The Shadow Board consisted of eight members and was supported by three governance committees which I established in 2011.

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14. At the statutory Board's first meeting on 23 October 2013, it agreed to establish two committees – for Audit and Risk Management and Remuneration. With the Board's support, I terminated my previous governance arrangements with immediate effect but retained the services of the chairs of the three previous governance committees to 31 March 2014 in order to secure a smooth transition by ensuring the effective transfer of knowledge and expertise.
 15. My aim is to manage the business of the Wales Audit Office in a manner that takes account of the risks we face using appropriate control systems. My governance framework is established in internal guidance which I am continuing to review to accommodate the provisions of the 2013 Act and my new Code of Audit Practice.
 16. My arrangements complied with the Code of Good Practice for Corporate Governance insofar as its requirements were relevant and practical. My arrangements did not comply with the Code's requirements in respect of: board composition because to include ministerial representation and government officials would have risked compromising my independence as Auditor General; and the appointment of a lead non-executive member.
 17. My vision and objectives are established in the Wales Audit Office's corporate strategy 2013-2016. The strategy was underpinned by an annual operational plan summarising the Wales Audit Office's programme of financial and performance audit work for the year and the support provided by corporate services.
 18. I could not realistically take every business decision and I established appropriate mechanisms to exercise authority on my behalf. As in previous years, I delegated my authority for delivering my strategic aims and objectives to three assistant auditors general. Together we formed the Executive Committee which I chaired. The Committee was the vehicle through which I made strategic and policy decisions and was responsible for monitoring key strategic risks and for ensuring that they were managed effectively with appropriate mitigating controls in place. The Committee – together with the senior leadership team comprising all directors – also set the organisational values that governed the Wales Audit Office's activities and the behaviour of its staff. In 2013-14, the Executive Committee met on 22 occasions and received a range of information to support its activities.
 19. The assistant auditors general were accountable to me for delivering their approved objectives as described in the operational plan and for ensuring that effective arrangements were in place to manage the risks in their areas of the business. They each led a management team of directors or service managers to whom they delegated responsibility for delivering specific projects, tasks and services and for managing risks.
 20. The Shadow Board was designed to prepare the Wales Audit Office for the implementation of the 2013 Act. Until its dissolution in October 2013, it advised me on the Wales Audit Office's strategic aims and objectives and on the deployment of financial and other resources to achieve them. Led by an independent chair the Shadow Board also comprised the chairs of the three governance committees and the assistant auditors general who sat on my Executive Committee.

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21. In combination, and also until their dissolution in October, the Audit and Risk Management, Remuneration and HR and Resources Committees provided objective and impartial counsel that helped me to discharge my responsibilities for the proper management of risk, control and governance and the provision of associated assurance within the Wales Audit Office, including in respect of the remuneration of staff and the management of resources.
 22. The three governance committees acted as subcommittees of the Shadow Board. In 2013-14, the cycle of business worked more efficiently than in previous years to support governance and accountability. However, further improvements are needed in planning and management to ensure more timely and effective decision making.
 23. The Wales Audit Office Board was established in October with five non-executive members and the Auditor General. At the end of the year, three employee members – including two elected via a ballot of all employees – remained to be appointed, although all three have since been appointed. The Board focused on ensuring that effective arrangements were in place for the formal transfer of staff and other resources on 1 April 2014 and to secure its own operating arrangements including through the adoption of a formal Scheme of Delegation, Initial Procedural Rules, a Members' Code of Conduct and a Code of Relationship Practice between the Wales Audit Office and the Auditor General.
 24. In addition, the Board approved an estimate of income and expenses for 2014-15 and an annual plan for 2014-15, both of which it prepared jointly with the Auditor General. The Board also approved a scheme for charging fees. These documents were laid before the National Assembly and scrutinised by the Finance Committee. The Board considered these documents in the context of the Wales Audit Office strategy for 2013-16 which remains relevant under the new governance arrangements.
 25. For non-executive members I maintained a register of interests, which was updated during the year to capture any additional information from declarations at Shadow Board, statutory Board and committee meetings. This ensured that potential conflicts of interest were identified in advance of meetings where practicable and appropriate action taken to mitigate them.
 26. The chairs of the Shadow Board, of its committees and the Head of Internal Audit each had a right of access, and could report any matters of concern, directly to the Chair of the Public Accounts Committee.
 27. Under the new arrangements, the Chair of the Wales Audit Office and the chairs of its committees have a right of access, and can report any matters of concern, directly to the Chair of the Finance Committee.
 28. The National Assembly appointed RSM Tenon Audit Limited as our external auditors for a three-year period commencing 2011-12. During the year RSM Tenon Limited were acquired by Baker Tilly and as such the audit report will be signed in the name of Baker Tilly UK Audit LLP.
 29. The Head of Internal Audit and the external auditor continue to have free and confidential access to the Audit and Risk Management Committee, including via a private session at each committee meeting.

Exhibit 1: Attendance at Shadow Board, Statutory Board and committee meetings 2013-14

	Executive Committee	Shadow Board	ARMC (to 22 October)	Remuneration and HR Committee (to 22 October)	Resources Committee (to 22 October)	Board	ARMC (from 23 October)	Remuneration Committee (from 23 October)
Number of meetings held	22	4	3	3	3	5	1	1
Non-executive directors								
Dr Arun Midha ¹					3			
Canon David Stanton ²				2				
Christine Hayes ³			2			5	1	1
David Corner ⁴						4	1	
Deep Sagar ⁵		4	1	2				
Denver Lynn ⁶			3					
Dr Elizabeth Haywood ²				2				
Gilbert Lloyd ⁶		4	3				1	
Haydn Warman ³			3					
Isobel Garner ⁸								1
Mary Champion ¹					3			
Michael Heap ²				3				
Dr Michael Brooker ⁹		4			3			
Peter Price ⁴						5		1
Rosamund Blomfield-Smith ⁹		4		3				

	Executive Committee	Shadow Board	ARMC (to 22 October)	Remuneration and HR Committee (to 22 October)	Resources Committee (to 22 October)	Board	ARMC (from 23 October)	Remuneration Committee (from 23 October)
Steve Burnett ¹⁰					3	5		1
Wales Audit Office¹¹								
Anthony Barrett	19	2	2		3	1		
Gillian Body	21	4	3		2	3		
Huw Vaughan Thomas	20	4	3	2	2	5	1	1
Kevin Thomas	19	4	3	3	3	3		

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- 1 Arun Midha and Mary Champion were appointed to the Resources Committee until 31 December 2013.
 - 2 Canon David Stanton, Elizabeth Haywood, and Michael Heap were appointed to the Remuneration and HR Committee until 31 March 2014.
 - 3 Christine Hayes was an independent member of the Audit and Risk Management Committee until October 2013. She was appointed as a non-executive member of the Wales Audit Office by the National Assembly on 17 October 2013 and is a member of the new Audit and Risk Management Committee and of the Remuneration Committee.
 - 4 David Corner and Peter Price were appointed as non-executive members of the Wales Audit Office by the National Assembly on 17 October 2013. On 23 October the Board appointed them as chairs of the Audit and Risk Management Committee and the Remuneration Committee respectively.
 - 5 Deep Sagar was the independent Chair of the Shadow Board until October 2013. He attended governance committee meetings in an observer capacity.
 - 6 Denver Lynn and Haydn Warman were appointed to the Audit and Risk Management Committee until 31 December 2013.
 - 7 Gilbert Lloyd was a member of the Shadow Board and the independent chair of the Audit and Risk Management Committee until October 2013. With the agreement of the Wales Audit Office Board, I retained Mr Lloyd's services as an independent member of the new committee until 31 March 2014 to secure an effective and efficient transition to the new governance arrangements. I have since extended that appointment, again with the Board's agreement, to September 2014.
 - 8 Isobel Garner was appointed as the Chair of the Wales Audit Office by the National Assembly on 17 October 2013. She is a member of the Remuneration Committee.
 - 9 Michael Brooker and Rosamund Blomfield-Smith were members of the Shadow Board by virtue of their appointments as chairs of the Resources Committee and the Remuneration and HR Committee respectively. With the agreement of the Board, I retained Dr Brooker's and Mrs Blomfield-Smith's services until 31 March 2014 to secure an effective and efficient transition to the new governance arrangements.
 - 10 Steve Burnett was an independent member of the Resources Committee until October 2013. He was appointed as a non-executive member of the Wales Audit Office by the National Assembly on 17 October 2013. He is a member of the Remuneration Committee.
 - 11 I and my assistant auditors general were members of the Shadow Board. I am a member of the Wales Audit Office and my assistant auditors general attended meetings to support the Board's deliberations during the transition period and pending its full constitution in May 2014. We are not members of the governance committees but attend as necessary to brief the committees or to take their advice.

The risk and control framework

30. Throughout 2013-14, the Executive Committee was responsible for managing risk in the Wales Audit Office. The Audit and Risk Management Committee scrutinised the Wales Audit Office's internal control and risk management arrangements.
31. My aim is to manage the business of the Wales Audit Office in a manner that takes into account the risks we face using appropriate control systems. This objective is embedded in our working methods including defined governance procedures, quality control policies, financial management and the identification and management of risks.
32. Given the nature of our business, we approach areas of professional audit judgement, regularity and propriety and financial management from a low risk tolerance perspective.
33. I employed a large number of qualified accountants and other professionally qualified persons who are bound by the ethical requirements of their various professional bodies. The Wales Audit Office conforms to International Standards on Auditing. In particular, the International Standard on Quality Control 1 is applied to all our financial audit engagements.
34. Control over the quality of audits is facilitated through our audit process and the hierarchical supervision provided within individual projects. We also have a system of internal and external quality reviews. The results of these reviews were reported to the Executive Committee and to the Audit and Risk Management Committee. These controls applied both to work undertaken by my staff and to private sector firms contracted to undertake work for me.
35. For the first time in 2013-14, the Institute of Chartered Accountants in England and Wales' Quality Assurance Department was commissioned to conduct a review of the Wales Audit Office's whole of office procedures and of its financial audit quality assurance arrangements. A copy of their summary report is available on our website www.wao.gov.uk
36. The Executive Committee maintained a corporate risk register which identified strategic and operational risks that could affect the achievement of the Wales Audit Office's aim and objectives. The Committee was alert to the need to keep these risks under review and to deal appropriately with changing circumstances as they arose. The summary risk register was a standing agenda item at the second committee meeting in each month; the Committee reviewed the detailed risk register every quarter, in advance of its consideration by the Audit and Risk Management Committee.
37. At the end of the year, the Head of Internal Audit was finalising his review of the Wales Audit Office's risk management arrangements to determine their fit with best practice and establish the extent to which they are embedded in the organisation. The outcome of that review, which the Audit and Risk Assurance Committee considered in June 2014, will inform any further work needed to improve the arrangements.

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38. As in previous years, the Wales Audit Office's risk profile remained relatively stable across the year but there were a number of key strategic risks – consequent partly upon the passing into law of the 2013 Act – that fluctuated during the year and that particularly engaged the Executive Committee's time:
- The role of the newly created Wales Audit Office includes providing resources for, and monitoring how I exercise, my functions as Auditor General. In my evidence to the Public Accounts Committee during the passage of the Bill, I had identified the tensions between the supervisory and executive nature of the Board's functions and the risk that the Auditor General's audit independence could potentially be compromised. The risk remains high as the new arrangements settle into routine operation but a Code of Relationship Practice is now in place and the Chair and I continue to work together to mitigate that risk.
 - The need to accommodate a HMRC ruling in December 2012 that I may no longer charge VAT on audit fees to local government and health bodies together with changes to my fee regime brought about by 2013 Act introduced a degree of uncertainty into the Wales Audit Office's financial position. These factors increased the risk to the Wales Audit Office's financial health but work to understand the impact of these changes and mitigate the risk was complete towards the end of the year. Going forward the Wales Audit Office faces the same challenges as other public sector bodies in securing a sustainable organisation delivering good value for money.
 - In previous years I have referred to the ongoing challenge – in respect of the production of timely and accurate management information – of maintaining a range of legacy systems. During the year, I have simplified those arrangements through the procurement of a new HR system and the outsourcing of payroll. These projects carried their own risks which were monitored effectively during the year with mitigating controls in place. Both projects have been implemented successfully.
 - Also, during the year I commissioned a project to examine the feasibility of procuring and implementing a single IT platform to support all the Wales Audit Office's audit work, replacing the two separate systems for financial and performance audit work that have been in place for some time. Such a project would represent a significant investment with risks attached to each of the identified options. However, project governance and risk management arrangements are in place, the Board has been fully engaged in considering the outline business case and expects to make a final decision during 2014-15.
 - In 2012-13 I reported that the culture development programme had focused on strengthening the capacity of my senior leadership team, notably in respect of its ability to function as a coherent management team. In 2013-14, to prepare for the new governance arrangements, I implemented a restructure of senior management that became effective on 1 April 2014. Embarking on this project at a time of significant change in the Wales Audit Office's broader governance arrangements carried a range of risks including to the completion of the audit programme and to the morale of senior and other staff.

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39. I am satisfied that the risks associated with these key projects have been monitored and managed effectively during the year.

Developments to improve the control framework

40. It is important that the Wales Audit Office is recognised as a well-governed and effective organisation delivering value for money in its use of resources. In 2013-14, I completed a number of projects and initiatives to further improve accountability within the organisation
41. I established a transition project to manage the many activities required to implement the requirements of the 2013 Act. The project was delivered largely within existing resources, leading to some reprioritisation of other work, though capacity was severely tested as staff worked to ensure – and achieved – a smooth transition on 1 April 2014.
42. I have already reported on the restructure of my senior leadership team which was also designed to prepare for the new governance arrangements established by the 2013 Act. The new structure encompasses the replacement of the Executive Committee with a Management Committee and the creation of a new Business Support Committee to oversee the further development of the Wales Audit Office's arrangements for financial management, workforce planning, business planning and risk management, ensuring that there are appropriate links between them within the context of the corporate strategy.
43. The new senior structure is also designed to ensure clarity in reporting lines internally and to build additional capacity for strengthening relationship management arrangements with audited bodies and key external stakeholders. To reinforce these objectives the Wales Audit Office is developing new business planning arrangements incorporating a suite of performance measures that will support further improvements in accountability. We are piloting those arrangements during 2014-15 with a view to publication before 1 April 2015.

Review of performance and effectiveness

44. As Accounting Officer I am responsible for reviewing the effectiveness of the system of internal control. My review is informed by the work of Internal Audit, by Wales Audit Office managers who are responsible for developing and maintaining the internal control framework and by the external auditors through comments in their management letter.
45. The Internal Audit Service operated during the year in accordance with the *Public Sector Internal Audit Standards*. It undertakes a programme of work based on an analysis of the major risks facing the Wales Audit Office. The Head of Internal Audit reported to the Executive Committee and to the Audit and Risk Management Committee on progress in implementing the planned work programme. He also attended the Remuneration and HR and Resources Committees as necessary. The Head of Internal Audit is required by *Public Sector Internal Auditing Standards* to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

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46. In 2013-14, following ongoing concerns about delays in the delivery of the internal audit work programme I completed a pilot project to test a co-sourcing arrangement in which I subcontracted elements of internal audit planned work to external suppliers. The approach worked well and the Wales Audit Office is formalising the arrangement by outsourcing delivery of the internal audit programme in 2014-15.
47. Each of my former governance committees reported annually to the Shadow Board on its activities during the year and on those areas of Wales Audit Office business it had examined. The Shadow Board and its committees also had arrangements in place to review their effectiveness annually.
48. Those reviews, completed in July 2013, informed the production of a legacy report which the new Board considered at its meeting in December 2013. The report included proposals for improving the effectiveness of the future governance arrangements including through:
- better alignment of the meetings and business cycles;
 - a proportionate learning and development programme for non-executive members;
 - further improvements in the Wales Audit Office's performance management arrangements linked to the new structure;
 - building on the embryonic arrangements for measuring Board and committee effectiveness; and
 - building time into the Board's work programme for themed workshops.
49. The Board accepted the report's recommendations which are forming the basis of its development programme.
50. My Private Office supported the work of the Shadow Board, statutory Board and the Executive and governance committees. The office also delivered a range of activities to provide assurance that the work of the Wales Audit Office was undertaken to appropriate quality standards and that its systems of risk, control and governance are operating effectively.

Information governance

51. I have privileged and wide-ranging access to data and information to support the discharge of my audit functions and to ensure that my reports are factual, accurate and complete. The Wales Audit Office has a duty to respect this privileged access and to ensure that the personal and sensitive information entrusted to it is safeguarded properly.

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52. In discharging this duty, the Wales Audit Office has an *Information Security Policy* which:
- sets out the obligations of all employees in relation to the use of Wales Audit Office ICT facilities;
 - outlines the legal requirements for processing data;
 - highlights key security responsibilities for staff;
 - sets out the arrangements for routine monitoring to check staff compliance with the law and Wales Audit Office policy;
 - sets out the Wales Audit Office's arrangements to monitor policy compliance; and
 - explains how staff can obtain further support and guidance and how security incidents should be reported.
53. My Private Secretary was accountable to the Executive Committee for information governance. He acted as the Single Point of Contact who must authorise all planned bulk transfers of higher-sensitivity information between the Wales Audit Office, audited bodies and other originators.
54. The Information Security Officer advises senior managers and staff on technical and practical security matters, and leads any required investigative work.
55. The Information Officer works to ensure sound overall information governance, including compliance with Data Protection Act 1998 and Freedom of Information Act 2000 requirements. The Information Officer is the principal point of contact for the Information Commissioner's Office.
56. The Wales Audit Office has adopted ISO 27001, the international standard for information security management, scaling its arrangements in line with the needs of the organisation.
57. There were no personal data related incidents reportable to the Information Commissioner's Office in 2013-14.

Significant internal control issues

58. In 2012-13, I reported that there were no internal audit recommendations requiring urgent or significant action because they highlighted a major issue or significant control weakness. Nor did the Head of Internal Audit identify any instances of fraud in the reviews he conducted. However, important issues requiring a response from management were identified as follows:
- the need for additional training and improved guidance to increase awareness and understanding of the income recognition policy, in the absence of which management should investigate changing the mechanism for income recognition from an input-based model (time) to one based on outputs (milestones);

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- to emphasise the importance of accurate time recording and to improve arrangements for handling variations to work programmes;
 - the introduction of quarterly reviews of work in progress by Finance with management of the Performance Group and Financial Audit Practice; and
 - further improvement of HR systems including updating and delivering the HR strategy and a number of HR-related policies.
- 59.** Significant progress has been made in addressing these issues including:
- organisation wide financial management training, focusing on income recognition and the importance of accurate time recording;
 - the implementation of a 'real-time' recording initiative;
 - quarterly reviews of work in progress; and
 - the procurement and implementation of a new HR system in April 2014.
- 60.** The 2013-14 internal audit opinion was informed by a range of factors, including those listed above. The Head of Internal Audit concluded that overall, the Wales Audit Office's systems are delivering an effective framework of governance, risk management and control. However, some deficiencies in the operation of internal controls have been identified and are being addressed through agreed management actions.
- 61.** The Head of Internal Audit's conclusion is based on the fact that he identified some areas for improvement in each audit report and a particular need to refocus the Wales Audit Office's risk management framework following the establishment of the Board and the restructure of senior management.
- 62.** There was one recommendation highlighting a significant control weakness requiring urgent action. Management responded promptly and reported the action taken to both the Executive Committee and the ARMC.

Next steps

- 63.** I am satisfied that risks are generally well managed and that the Wales Audit Office's internal controls have improved; where there are weaknesses, appropriate actions are in place to tackle them.
- 64.** I have accepted the conclusions and recommendations of the Head of Internal Audit. Managers are implementing his recommendations and the Management Committee will continue to monitor the improvements made.

65. With the full commencement of the 2013 Act on 1 April 2014, the Wales Audit Office faces a number of challenges including:

- mapping the new governance arrangements to ensure that decision-making processes are clear and understood;
- strengthening performance reporting aligned with the business plan to deliver on the commitment to be an accountable, well-run and efficient organisation;
- further work on the costing model and ownership of fee targets to ensure a smooth transition to the new fee regime; and
- implementing the Common Audit Platform project, subject to Board approval later this year.



Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer

18 June 2014

Independent Auditor's Report to the National Assembly for Wales

We certify that we have audited the financial statements of the Auditor General for Wales for the year ended 31 March 2014 under Schedule 8 of the Government of Wales Act 2006. These financial statements comprise the Summary of Resource Outturn, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, and related notes. The financial reporting framework that has been applied in their preparation is HM Treasury directions issued under the Government of Wales Act 2006. We have also audited the information in the Remuneration Report that is described in the report as having been audited. We have also undertaken work, as a separate requirement of the Public Accounts Committee, to obtain reasonable assurance that expenditure disbursed and income received have been applied for the purposes intended by the National Assembly for Wales and the financial transactions recorded in those financial statements conform to the authorities which govern them.

This report is made solely to the National Assembly for Wales to whom it is addressed in accordance with the Government of Wales Act 2006 and for no other purpose. Our audit work has been undertaken so that we might state to the National Assembly for Wales those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the National Assembly for Wales for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Auditor General for Wales and the Auditor

As explained more fully in the Statement of the Accounting Officer's responsibilities set out on page 50, the Auditor General for Wales is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring expenditure disbursed and income received have been applied for the purposes intended by the National Assembly for Wales and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving a reasonable assurance opinion that expenditure disbursed and income received have been applied for the purposes intended by the National Assembly for Wales and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Scope of the audit on the financial statements

A description of the scope of an audit on financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure disbursed and income received recorded in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions recorded in the financial statements conform to the authorities which govern them. We have conducted our work in accordance with the Audit Practices Board Practice Note 10 in this respect.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Auditor General for Wales affairs as at 31 March 2014 and of its net operating cost for the year then ended; and
- have been properly prepared in accordance with the HM Treasury directions issued under the Government of Wales Act 2006.

Opinion on regularity

In our opinion in all material respects, the expenditure disbursed and income received recorded in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform with the authorities that govern them.

Opinion on other matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Government of Wales Act 2006; and
- the information included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP

20 June 2014

Registered Auditors

Davidson House

Forbury Square

Reading

RG1 3EU

Summary of Resource Out-turn for the year ended 31 March 2014

	2013-14 Estimate			2013-14 Out-turn			Net total out-turn compared to estimate	2012-13 Out-Turn
	Gross expenditure	Income	NET TOTAL	Gross expenditure	Income	NET TOTAL		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	13,405	(7,994)	5,411	12,609	(7,744)	4,865	546	3,571
Capital	20	-	20	20	-	20	-	16
Total Resources	13,425	(7,994)	5,431	12,629	(7,744)	4,885	546	3,587
Net Cash Requirement (see reconciliation below)			5,431			5,094	337	4,472

The above Summary of Resource Out-turn summarises the Wales Audit Office's achieved position against those elements of the budget of the Wales Audit Office that are subject to approval by budget motion of the National Assembly. Namely, the amount of resources and cash that can be drawn down from the Welsh Consolidated Fund (WCF) and the amount of income generated from NHS, central government, local government grants work and sundry sources that can be retained.

Reconciliation of resource out-turn to net expenditure

	2013-14 out-turn	2012-13 out-turn
	£'000	£'000
Total revenue resources	4,865	3,571
Income in excess of estimate	-	(99)
Non-supply income	(10,298)	(9,846)
Non-supply expenditure	11,719	8,419
Net expenditure	6,286	2,045

The following table summarises where the 2013-14 figures in the tables above have been derived from the corresponding figures within the Statement of Accounts, and provides a breakdown of how those figures have been apportioned to the Summary of Resource Out-turn.

	<i>Note</i>	Total £'000	Included in Summary of Resource Out-turn £'000	Not included in Summary of Resource Out-turn £'000
Income (fees)	2	16,606	7,717	8,889
Income (grant)	2	1,409	-	1,409
Other operating income	3	20	20	-
Bank interest	-	7	7	-
Less income in excess of estimate		-	-	-
Total income		18,042	7,744	10,298
Expenditure	2	24,325	12,606	11,719
Corporation tax		3	3	
Total expenditure		24,328	12,609	11,719
Total comprehensive net expenditure		6,286	4,865	1,421
Depreciation and amortisation	7	227	97	130
Movements in working capital	<i>Cash Flow Statement</i>	920	(306)	1,226
Capital additions	<i>8 and 9</i>	54	20	34

The movement in working capital in the above table is the net of the movements in receivables (minus £1,046,000), payables (plus £1,949,000) and provisions (plus £17,000) shown in the Cash Flow Statement.

Explanation of variances

The net out-turn reported above reflects a reduction in expenditure of £796,000 as compared to that anticipated in the Estimate for 2013-14, offset by a reduction in income of £250,000. This was as a result of staff vacancies during the year as both expenditure and income in the Estimate were based on assumption of a full establishment.

Summary of cash payable to the Welsh Consolidated Fund

Arising from the operations of the Wales Audit Office for the 2013-14 financial year, the sum of £337,000 is repayable to the WCF.

The notes that follow on pages 75 to 94 form part of these financial statements.

Statement of Comprehensive Net Expenditure for the year ended 31 March 2014

	Note	2013-14 £'000	2012-13 £'000
Expenditure			
Staff and associated costs	4	15,291	14,981
Bought-in services	6	3,308	3,451
Other operating costs	7	4,093	3,221
Increase/(decrease) in provision for taxation	7	-	(2,392)
Distribution of reserves to local government bodies	7	1,633	0
	2	<u>24,325</u>	<u>19,261</u>
Income			
Audit fee income	2	(16,606)	(15,871)
Inspection grant	2	(1,409)	(1,322)
Other operating income	3	(20)	(11)
		<u>(18,035)</u>	<u>(17,204)</u>
Net expenditure		6,290	2,057
Interest payable/(receivable)		(7)	(12)
Corporation tax payable/(recoverable)		3	-
Net expenditure after tax and interest		<u>6,286</u>	<u>2,045</u>
Other comprehensive expenditure		-	-
Total comprehensive net expenditure for the year		<u>6,286</u>	<u>2,045</u>

The notes that follow on pages 75 to 94 form part of these financial statements.

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

Statement of Financial Position at 31 March 2014

	<i>Note</i>	31 March 2014 £'000	31 March 2013 £'000
Non-current assets			
Property, plant and equipment	8	666	816
Intangible assets	9	97	120
		<u>763</u>	<u>936</u>
Current assets			
Trade receivables and work in progress	10	1,996	1,061
Other receivables	11	572	461
Cash and cash equivalents	12	4,489	4,519
		<u>7,057</u>	<u>6,041</u>
Total assets		<u>7,820</u>	<u>6,977</u>
Current liabilities			
Trade payables and other current liabilities	13	(3,493)	(1,743)
Deferred income	14	(2,463)	(2,264)
Provisions for liabilities and charges	15	(637)	(557)
WCF (see Summary of Resource Out-turn)		(337)	(268)
		<u>(6,930)</u>	<u>(4,832)</u>
Total assets less current liabilities		890	2,145
Non-current liabilities			
Provisions for liabilities and charges	15	(890)	(953)
		<u>(890)</u>	<u>(953)</u>
Total assets less liabilities		<u>-</u>	<u>1,192</u>
Taxpayers' equity			
General reserve		-	1,192
		<u>-</u>	<u>1,192</u>

The notes that follow on pages 75 to 94 form part of these financial statements.

The Auditor General has confirmed that at the time the report is approved:

- (a) so far as he is aware, there is no relevant audit information of which the auditor is unaware; and
- (b) he has taken all the steps that he ought to have taken as Accounting Officer in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

The Accounting Officer authorised these financial statements for issue on 18 June 2014.



Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer

Statement of Cash Flows for the year ended 31 March 2014

	Note	2013-14 £'000	2012-13 £'000
<i>Cash flows from operating activities</i>			
Comprehensive net expenditure		6,286	2,045
Non cash: depreciation and amortisation	7	(227)	(495)
Increase/(decrease) in trade and other receivables	10,11	1,046	(223)
(Increase)/decrease in trade and other payables	13,14	(1,949)	704
(Increase)/decrease in provisions	15	(17)	2,757
Net cash outflow from operating activities		5,139	4,788
<i>Cash flows from investing activities</i>			
Purchases of property, plant and equipment	8	16	155
Purchases of intangible assets	9	38	6
Reclassification to revenue	8	0	(6)
Net cash outflow from investing activities		54	155
<i>Cash flows from financing activities</i>			
WCF		(5,431)	(4,740)
WCF repaid		268	1,945
Net financing		(5,163)	(2,795)
Movements in cash and cash equivalents	12	30	2,148

The notes that follow on pages 75 to 94 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	£'000
Balance at 31 March 2012	(1,235)
Changes in taxpayers' equity in 2012-13	
Total comprehensive expenditure	(2,045)
WCF finance	4,740
	1,460
Payable to WCF	(268)
Balance at 31 March 2013	1,192
Changes in taxpayers' equity in 2013-14	
Total comprehensive expenditure	(6,286)
WCF finance	5,431
	337
Payable to WCF ¹	(337)
Balance at 31 March 2014	-

1 As reported in the Summary of Resource Out-turn for the year ended 31 March 2014.

The notes that follow on pages 75 to 94 form part of these financial statements.

Note 1: Accounting conventions and policies

Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2013-14 Financial Reporting Manual (FReM), issued by the relevant authorities. The financial statements have been prepared on a going concern basis as set out in Note 22: events after the reporting period.

The accounting policies contained in the FReM apply EU-adopted International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Auditor General for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Auditor General are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

There are no new accounting standards issued, but not yet effective, that would have had a material effect on these financial statements had they been applied in this reporting period:

- (i) The accounts are prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets where material to their value to the business by reference to their current costs, in a form directed by HM Treasury, under paragraph 13(1) of Schedule 8 of the Government of Wales Act 2006. They are presented in British pounds which is the functional currency of the Wales Audit Office and are rounded to the nearest £1,000.
- (ii) Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT.
- (iii) Operating income, whether derived from direct government grant or fees generated from audited bodies, is credited to the year of account in which the work is done. Income received in advance of the work being done is classed as deferred income (see xi). Work done in advance of income received is classed as work in progress (see ix). Funding drawn from the Welsh Consolidated Fund (WCF) is not direct government grant and is credited directly to taxpayers' equity.
- (iv) Costs incurred on audit work (ie, staff and contractor firm costs) have been directly attributed to the relevant income streams. Other expenditure is charged firstly against unallocated funding from the WCF and then, to the extent that funds are available, attributed to income streams in direct proportion to income levels.
- (v) The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme to which both employee and employer contribute. The Auditor General recognises the expected cost of providing pensions on a systematic and rational basis over the period during which the Wales Audit Office benefits from employees' services by payment to the PCSPS of the amounts calculated on an accruing basis.

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- (vi) Operating lease rentals are charged on a straight-line basis over the lease term. Lease incentives received are recognised in the Statement of Comprehensive Net Expenditure as an integral part of the total lease expense. Where the Wales Audit Office enjoys the benefit of rent-free periods in leases, that benefit is credited evenly over the period from the inception of the lease until the first rent review.
 - (vii) Intangible assets, which are software licences, are stated at amortised historic cost. The assets are amortised on a straight-line basis over the shorter of the term of licence or useful economic life. Amortisation is calculated from the date the intangible asset commences its useful life.
 - (viii) Fixed assets are held at depreciated replacement costs as an approximation to fair value.
 - (ix) Depreciation is provided on all property, plant and equipment assets calculated to write off the cost, less estimated residual value, of each asset in equal annual instalments over its expected useful life as follows:

Furniture and fittings (including IT infrastructure)	10 years
Computer equipment	3 years
Office equipment	5 years

Under the Auditor General's capitalisation policy, individual and grouped computer equipment and software in excess of £5,000, other equipment in excess of £1,000 and office refurbishments are capitalised. Depreciation is calculated from the date the asset commences its useful life.

- (x) Receivables and work in progress are valued at estimated realisable value. Work in progress relates to amounts due on completed work where the fee is yet to be issued or where work done falls into different account periods. This is stated at full cost less provision for foreseeable losses and amounts billed on account. A provision for impairment of trade receivables is established when there is evidence that the Wales Audit Office will not be able to recover all amounts due in accordance with contracts.
- (xi) A provision for future leasehold property dilapidations is established in the Statement of Financial Position. This is built up through an annual dilapidations charge, calculated by applying an annual dilapidation rate to the floor area of the leased assets. Dilapidation liabilities relating to the cost of restoring alterations made to leased buildings are accounted for by means of a provision set aside in the year the cost was identified, based on estimates provided by independent surveyors. Such provisions are capitalised and depreciated over the shorter of the asset life or the length of the lease.

(xii) Deferred income comprises fee income that has been invoiced but not yet recognised. This is calculated by assessing the percentage completion of projects, recognising that proportion of invoiced fee income as revenue in the period with unrecognised, invoiced income being treated as deferred income.

(xiii) The preparation of the financial statements requires various estimates and assumptions to be made that affect the application of accounting policies and reported amounts. All such estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The most significant areas of estimation and critical judgments are:

- Provisions for redundancies and severances are based on projections of expected future pension payments. In line with accounting standards, the provision is recognised in full in the year that the obligating event occurred, assuming that it is probable that a transfer of economic benefits is required and that this can be reliably estimated.
- Work in progress is valued at the percentage of completion of unbilled work. Deferred income is calculated based on an assessment of project completion, as explained above.
- Tax provisions are based on professional advice received.
- Dilapidations provisions are based on professional advice received.

(xiv) Events after the Statement of Financial Position date that may require disclosure or adjustment in accordance with the requirements of IAS 10 are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date on which the Independent Auditor's Report is signed.

Note 2: Analysis of net expenditure by segment

The income, financing and costs of the Wales Audit Office's activities for 2013-14 are summarised in the following table:

	Local government audit	Local government performance	Total Not included in Statement of Resource Out-turn	Local government grant certification ¹	NHS audit ¹	Central government audit ¹	NHS performance ¹	Central government performance ¹	Value for money work funded by WCF	Activities funded by WCF	Total included in Statement of Resource Out-turn	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income and financing												
Audit Fees	5,433	3,456	8,889	2,496	2,039	1,880	1,263	39	-	-	7,717	16,606
Grant	-	1,409	1,409	-	-	-	-	-	-	-	-	1,409
WCF finance	-	-	-	-	-	-	-	-	2,647	2,764	5,411	5,411
Total	5,433	4,865	10,298	2,496	2,039	1,880	1,263	39	2,647	2,764	13,128	23,426
Expenditure	6,381	5,338	11,719	2,427	1,792	1,743	1,215	18	2,647	2,764	12,606	24,325
	(948)	(473)	(1,421)	69	247	137	48	21	-	-	522	(899)

¹ Income and expenditure of these segments are included in the Summary of Resource Out-turn.

Reconciliation to Statement of Comprehensive Net Expenditure

	£'000
Per above analysis	899
WCF resource	5,411
Corporation tax	3
Interest receivable	(7)
Other income	(20)
Per Statement of Comprehensive Net Expenditure	<u>6,286</u>

Comparative figures for 2012-13 were as follows:

	Local government audit	Local government performance	Total Not included in Statement of Resource Out-turn	Local government grant certification ¹	NHS audit ¹	Central government audit ¹	NHS performance ¹	Central government performance ¹	Value for money work funded by WCF	Activities funded by WCF	Total included in Statement of Resource Out-turn	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income and financing												
Audit fees	5,131	3,393	8,524	2,520	1,987	1,588	1,252	-	-	-	7,347	15,871
Grant	-	1,322	1,322	-	-	-	-	-	-	-	-	1,322
WCF finance	-	-	-	-	-	-	-	-	2,546	2,178	4,724	4,724
Total	5,131	4,715	9,846	2,520	1,987	1,588	1,252	-	2,546	2,178	12,071	21,917
Expenditure												
	4,734	3,685	8,419	2,319	1,423	1,390	986	-	2,546	2,178	10,842	19,261
	397	1,030	1,427	201	564	198	266	-	-	-	1,229	2,656

Reconciliation to Statement of Comprehensive Net Expenditure

	£'000
Per above analysis	(2,656)
WCF resource	4,724
Corporation tax	-
Interest receivable	(12)
Other income	(11)
Per Statement of Comprehensive Net Expenditure	<u>2,045</u>

Note 3: Other operating income

	2013-14	2012-13
	£'000	£'000
Sundry income	20	11
	<u>20</u>	<u>11</u>

Note 4: Staff and associated costs

(i) Staff costs	2013-14	2012-13
	£'000	£'000
Staff salaries	10,668	10,317
Non-executive committee member fees ¹	90	64
Social security costs	1,042	1,065
Pension costs (PCPS) ²	2,116	2,061
Pension costs (Stakeholder pensions)	7	8
	<u>13,923</u>	<u>13,515</u>
Car scheme	742	745
Subscriptions and other benefits	47	38
	<u>14,712</u>	<u>14,298</u>
Audit and inspection contractors	323	472
	<u>15,035</u>	<u>14,770</u>
Redundancy, early retirement and severance costs	400	263
Less monies received in respect of outward secondments	(144)	(52)
Net staff costs	<u>15,291</u>	<u>14,981</u>

¹ As stated in the Remuneration Report with the exception of the Chair of the Wales Audit Office Board whose remuneration is met by the National Assembly.

² Principal Civil Service Pension Scheme as described in the Remuneration Report.

More detailed information in respect of the remuneration and pension entitlements of the senior management is shown in the Remuneration Report on pages 42 to 49.

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

(ii) Staff numbers	2013-14	2012-13
	£'000	£'000
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	243	226
Audit and inspection contractors (average number of full-time equivalents in year)	7	11

The Wales Audit Office uses a number of temporary audit and inspection contractors at certain times in the year to meet demand for resources at peak times.

Note 5: Redundancies, early retirements and severances

The Wales Audit Office operates voluntary severance schemes in accordance with Civil Service Compensation Scheme rules and as approved by the Cabinet Office. These schemes are in accordance with workforce planning requirements and have resulted in reductions to the staffing cost base of the Wales Audit Office. The cost of the scheme in 2013-14 was £378,409 (2012-13: £192,207).

A number of employees entered into approved exit packages during 2013-14 and 2012-13 as summarised below:

Exit package cost band	2013-14			2012-13		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Less than £25,000	-	-	-	-	-	-
£25,001 – £50,000	-	1	1	-	-	-
£50,001 – £100,000	-	2	2	-	1	1
£100,001 – £150,000	-	1	1	-	1	1
£150,001 and over	-	-	-	-	-	-
Total	-	4	4	-	2	2

The four people who were approved for voluntary exit in 2013-14, had leaving dates in 2014-15. The costs of the packages are included within Note 4: staff costs and Note 15: provisions for liabilities and charges.

Early retirement and departure costs have been paid in accordance with Wales Audit Office policy, which has been agreed with recognised trade unions. The additional costs that are not met by the Principal Civil Service Pension Scheme are met instead by the Wales Audit Office and are recognised in these financial statements.

Note 6: Bought-in services

	2013-14	2012-13
	£'000	£'000
Payments to private accountancy firms	3,168	3,320
Research and other consultancy costs	140	131
	<u>3,308</u>	<u>3,451</u>

These costs relate to services bought in by the Auditor General that directly relate to audit, inspection or research functions.

Note 7: Other operating costs

	2013-14	2012-13
	£'000	£'000
Accommodation		
– Rent lease costs	453	245
– Other costs	397	390
Supplies and services	2,233	1,374
Increase/(decrease) in provision for taxation		(2,392)
Recruitment and transfers	76	57
Depreciation and amortisation	227	495
Professional fees		
– Internal audit services	17	-
– External audit fees	25	29
– Other professional fees	90	64
Travel and subsistence	431	397
Learning and development	144	170
Distribution of reserves to local government bodies ¹	1,633	-
	<u>5,726</u>	<u>829</u>

1 Accumulated reserves to 31 March 2014 will be distributed to local government bodies in accordance with the commitment made in the annual Estimate for 2014-15.

Note 8: Property, plant and equipment

	Furniture and fittings	Information technology	Office equipment	Total
	£'000	£'000	£'000	£'000
2013-14				
Cost				
At 31 March 2013	1,377	207	115	1,699
Additions	-	16	-	16
Disposals	-	-	-	-
Reclassified to revenue	-	-	-	-
At 31 March 2014	1,377	223	115	1,715
Depreciation				
At 31 March 2013	697	121	65	883
Provided in period	129	16	21	166
Disposals	-	-	-	-
Reclassified to revenue	-	-	-	-
At 31 March 2014	826	137	86	1,049
Net book value				
At 31 March 2014	551	86	29	666
At 31 March 2013	680	86	50	816
Asset financing				
Owned	551	86	29	666
	Furniture and fittings	Information technology	Office equipment	Total
	£'000	£'000	£'000	£'000
2012-13				
Cost				
At 31 March 2012	823	207	112	1,142
Additions	560	-	23	583
Disposals	-	-	(20)	(20)
Reclassified to revenue	(6)	-	-	(6)
Reclassified from intangible assets	-	-	-	-
At 31 March 2013	1,377	207	115	1,699
Depreciation				
At 31 March 2012	344	104	63	511
Provided in period	355	17	20	392
Disposals	-	-	(18)	(18)
Reclassified to revenue	(2)	-	-	(2)
At 31 March 2013	697	121	65	883
Net book value				
At 31 March 2013	680	86	50	816
At 31 March 2012	479	103	49	631
Asset financing				
Owned	680	86	50	816

In the opinion of the Auditor General, there is no material difference between the net book value of assets at current values and at their historical cost.

Note 9: Intangible assets

Intangible assets are software licences.

		Total £'000
	2013-14	
Cost		
	At 31 March 2013	712
	Additions	38
	Disposals	(31)
	At 31 March 2014	<u>719</u>
Amortisation		
	At 31 March 2013	592
	Provided in period	61
	Disposals	(31)
	At 31 March 2014	<u>622</u>
Net book value		
	At 31 March 2014	<u>97</u>
	At 31 March 2013	<u>120</u>
Asset Financing		
	Owned	<u>97</u>
	2012-13	Total £'000
Cost		
	At 31 March 2012	715
	Additions	6
	Disposals	(9)
	At 31 March 2013	<u>712</u>
Amortisation		
	At 31 March 2012	497
	Provided in period	104
	Disposals	(9)
	At 31 March 2013	<u>592</u>
Net book value		
	At 31 March 2013	<u>120</u>
	At 31 March 2012	<u>218</u>
Asset financing		
	Owned	<u>120</u>

In the opinion of the Auditor General, there is no material difference between the net book value of assets at current values and at their historical cost.

No material inventories are held.

Note 10: Trade receivables and work in progress

	31-Mar-14	31-Mar-13
	£'000	£'000
Trade receivables		
-Central government	82	98
-Local government	253	337
-NHS	205	99
-External to government	31	6
Work in progress		
-Central government	592	391
-Local government	833	130
-NHS	-	-
	<u>1,996</u>	<u>1,061</u>

There are no amounts falling due after one year included in the above figures.

A provision for bad and doubtful debts has not been required in 2013-14. (2012-13 – not required)

Note 11: Other receivables

	31-Mar-14 £'000	31-Mar-13 £'000
Prepayments and accrued income	571	459
Loans to employees	1	2
	<u>572</u>	<u>461</u>

There are no amounts falling due after one year included in the above figures.

The receivables balances in Notes 10 and 11 can be analysed into the following categories:

	31-Mar-14 £'000	31-Mar-13 £'000
Central government bodies	704	506
Local government bodies	1,268	631
NHS bodies	205	99
Bodies external to government	391	286
	<u>2,568</u>	<u>1,522</u>

Note 12: Cash and cash equivalents

	31-Mar-14 £'000	31-Mar-13 £'000
Balance at 1 April	4,519	6,667
Net change in cash and cash equivalents	<u>(30)</u>	<u>(2,148)</u>
Balance at 31 March	<u>4,489</u>	<u>4,519</u>
	31-Mar-14 £'000	31-Mar-13 £'000
Current account	2,781	2,817
Euro account	1	1
Global Sterling Fund	1,707	1,701
	<u>4,489</u>	<u>4,519</u>

Cash and cash equivalents include all funds held in accounts to which the Wales Audit Office has instant access. The Current account includes an overnight interest bearing facility. The Euro account is maintained to simplify occasional overseas transactions.

The Global Sterling Fund is provided by the RBS Group. This fund aims to protect capital balances even in times of financial instability within the financial markets, whilst offering a wholesale money market return. The fund is structured to ensure that the highest credit ratings are maintained, namely AAA rated or equivalent with Standard & Poor, Fitch and Moody rating agencies.

Note 13: Trade payables and other current liabilities

	31-Mar-14	31-Mar-13
	£'000	£'000
Trade payables	217	161
VAT	53	549
Taxation and social security costs	320	2
Accrual for holiday entitlement not yet taken	481	486
Distribution of reserves to local government bodies	1,633	-
Other accruals	789	545
	<u>3,493</u>	<u>1,743</u>

- 1 All trade payables are falling due within one year.
- 2 In accordance with the 2013 Act, the Wales Audit Office is unable to hold accumulated reserves effective from 1 April 2014. In preparation for this, reserves accumulated to 31 March 2014 will be distributed to local government bodies in accordance with a commitment made in the annual Estimate for 2014-15 and, as such, have been treated as a creditor in these accounts.
- 3 The bulk of the other accruals (£546,000) relates to accrual of trade payable invoices received post year end. £243,000 is in respect of pension contributions for March 2014, paid in April 2014.

Note 14: Deferred income

	31-Mar-14	31-Mar-13
	£'000	£'000
Deferred income	2,463	2,264
	<u>2,463</u>	<u>2,264</u>

In accordance with accounting standards, we are required to assess the percentage completion of projects and recognise that proportion of expected fee income as revenue in the period. Deferred income represents income that has been billed but not yet recognised.

The payable balances in Notes 13 and 14 can be analysed into the following categories:

	31-Mar-14	31-Mar-13
	£'000	£'000
Central government bodies	461	776
Local government bodies	3,179	1,351
NHS bodies	1,043	885
Bodies external to government	1,273	995
	<u>5,956</u>	<u>4,007</u>

Note 15: Provisions for liabilities and charges

	Dilapidations	Early retirement and severance ¹	HMRC	Totals
	£'000	£'000	£'000	£'000
At 31 March 2013	542	815	153	1,510
Provided in year	14	495	34	543
Provisions utilised/released in year	-	(428)	(98)	(526)
At 31 March 2014	<u>556</u>	<u>882</u>	<u>89</u>	<u>1,527</u>

¹ The Wales Audit Office uses HM Treasury's discount rate net of CPI at November 2012 of 1.80 per cent to calculate this balance for 0 to 5 years and 1.0 per cent 5-10 years. (2012-13: 2.35 per cent).

Analysis of expected timing:

	Dilapidations	Early retirement and severance	HMRC	Totals
	£'000	£'000	£'000	£'000
Not later than one year	-	548	89	637
Later than one year and not later than five years	67	250		317
Later than five years	489	84		573
	<u>556</u>	<u>882</u>	<u>89</u>	<u>1,527</u>

The dilapidations provision represents an estimate of the costs the Wales Audit Office may incur in making good its leased properties at the end of the leases. The provision consists of an estimate of the likely cost of restoring alterations made to leased properties, along with an amount for 'wear and tear' calculated by applying an annual dilapidation rate to the floor area of the leased asset. The cost of restoring works done to the Cathedral Road offices has been estimated by independent surveyors. The cost of making good alterations at the Penllergaer and Ewloe offices has been estimated by reference to the costs of carrying out the alterations.

The early retirement and severance provisions represent the future liability of the Wales Audit Office in respect of members of staff who have left under redundancy, early retirement and severance schemes.

The HMRC provision relates to:

- underpayment of PAYE tax and national insurance contributions to a contractor who has provided services to the Wales Audit Office during the period 1 April 2009 to 31 March 2013;
- underpayment of PAYE tax and national insurance contributions in respect of expenses paid to some Wales Audit Office staff;
- underpayment of PAYE tax and national insurance contributions in respect of the Employee Assistance Programme; and
- underpayment of PAYE tax and national insurance contributions in respect of the Employee Death in Service benefit.

Note 16: Operating leases

There were aggregate minimum lease payments at 31 March 2014 in respect of non-cancellable car leases:

	31-Mar-14	31-Mar-13
	£'000	£'000
Within one year	158	188
Within one to five years	241	209
	399	397

There were aggregate minimum lease payments at 31 March 2014 in respect of office accommodation leases:

	31-Mar-14	31-Mar-14	31-Mar-13	31-Mar-13
	£'000	Number of properties	£'000	Number of Properties
Within one year	446	3	419	3
Within one to five years	1,783	2	1,677	2
Over five years	1,262	1	1,642	1
	3,491		3,738	

Office accommodation leases are subject to periodic rent reviews.

Note 17: Capital commitments

There were no capital commitments at 31 March 2014 (31 March 2013: none).

Note 18: Losses and special payments

Special payments

There were no special payments in 2013-14 (2012-13: none).

Losses

There were no disclosable losses in 2013-14 (2012-13: none).

Note 19: Derivatives and financial instruments

IFRS 7 *Financial Instruments Disclosures* requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Owing to the nature of the Auditor General's activities and the way in which the operations are financed, the office is not exposed to a significant level of financial risk. Although the Auditor General can borrow funds, the office has not been required to do so in this financial year. The Auditor General can also invest surplus funds, which is done through an overnight interest bearing account and in the Global Sterling Fund (see Note 12). These activities do not give rise to any significant financial risk.

Liquidity risk

Given the nature of our business, our tolerance of risk in areas of financial management is low.

In light of this risk appetite, and the backing of the Welsh Consolidated Fund, the Auditor General is not exposed to significant liquidity risks.

Interest rate risk

The Auditor General's financial assets and liabilities, with the exception of investment income, are not exposed to interest rate risk.

Foreign currency risk

The Auditor General's exposure to foreign currency risk is negligible as only very small forward purchases of foreign currency are made in connection with foreign travel and other associated costs such as hotels. Also, any fees generated from foreign work or secondments are translated when received. Any exchange differences are recorded in the Statement of Comprehensive Net Expenditure for the year in arriving at the operating surplus.

Credit risk

The Wales Audit Office's clients are mainly the Welsh Government, its sponsored and related public bodies, NHS Wales and local government bodies in Wales. The Wales Audit Office is therefore not exposed to any material credit risks.

Fair values

There is no difference between the book values and fair values of the Auditor General's financial assets and liabilities as at 31 March 2014 (31 March 2013: nil).

Note 20: Contingent liability

Confirmation has been received from HMRC that they accept that Wales Audit Office operational staff meet the definition of being 'geographically based' for tax purposes and hence there is no contingent liability in respect of this.

Note 21: Related party transactions

The Auditor General is a corporation sole established under statute and has had a number of material transactions with the Welsh Consolidated Fund and with his audited bodies and the bodies audited by his appointed auditors as disclosed in the Remuneration Report.

During the year, no members of the non-executive committees, nor key members of staff nor their related parties had undertaken any material transactions with either the Auditor General or the Wales Audit Office. Information about key management personnel is included in the Remuneration Report.

Note 22: Events after the reporting period.

On 29 April 2013, Her Majesty the Queen granted Royal Assent to the Public Audit (Wales) Act 2013. This 2013 Act creates a new corporate body – the Wales Audit Office. In accordance with the 2013 Act, all staff employed by the Auditor General, together with all rights, assets and liabilities vested in the Auditor General at 31 March 2014, were transferred to the Wales Audit Office on 1 April 2014.

The financial statements have been prepared on a going concern basis as the financial operations of the Auditor General were transferred and undertaken in full to the Wales Audit Office with effect from 1 April 2014.

Although voted funding has only been approved for nine months after the date of signing these statements, an Estimate for the 2015-16 financial year will be presented to the Finance Committee of the National Assembly in the autumn of 2013-14 and there is no reason to believe that this will not be approved.



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