

Archwilydd Cyffredinol Cymru
Auditor General for Wales

The Well-being of Future Generations and what it means for your audit

A consultation by the Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



This paper, on reshaping my audit approach, has been prepared to inform my consultation with those public bodies I audit. However, other stakeholders are also welcome to respond.

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Foreword

‘...the unique role of external scrutiny is to provide independent assurance that services are well-managed, safe and fit for purpose and that public money is being used properly.’

The Crerar Review: the report of the independent review of regulation, audit, inspection and complaints handling of public services in Scotland



Attached to this letter is a consultation paper, prepared by my office, to begin a conversation with each of the bodies that I audit, on how recent and forthcoming legislation, as well as other developments, should reshape my audit approach. Whilst the new requirements placed on me by the Well-being of Future Generations (Wales) Act 2015 (the WFG Act) has prompted this conversation, there are a range of other challenges and opportunities facing the public sector in the coming years which also need to be taken into consideration.

In discussing how my audit of public bodies in Wales could respond to these changes, it will be important to view my new duty under the WFG Act alongside my existing duties and powers¹. As far as possible I will seek to contain work arising from new duties within the current level of fees. This will not be possible for those (central government) bodies that, whilst subject to my general study powers, currently receive an accounts-only audit but are now subject to the WFG Act.

All audit work needs to be sufficient to discharge my duties, proportionate to the type of body concerned and the level of risk identified.

This consultation is based on my belief that audit should: add-value; be responsive to risk; and be proportionate. I am keen that this should be an open dialogue with audited bodies from which new approaches can emerge. I encourage you to take advantage of this opportunity to respond to the high-level questions in the consultation paper. My engagement directors will be discussing these challenges and opportunities with you. Those discussions, together with your written responses to this consultation, will help me reshape and develop my approach to auditing public bodies in Wales.

This consultation will close on 23 May 2016. The output from this consultation and conversation will be valuable in helping me to develop and test options for the future delivery of my work.

A handwritten signature in blue ink, appearing to read 'G. Jones'.

¹ A guide to the legislation relevant to the work of the Auditor General for Wales and the Wales Audit Office

Public audit in Wales: challenges and opportunities

In a democracy, governments 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 government and its use of public funds; they need information which is timely, impartial, accurate, comprehensive and clear. This is the role of public audit.

The **Public Audit Forum** endorses four main principles for public audit. These principles are the foundation underpinning all the work carried out by the Auditor General.

The principles of public audit



External audit cannot act as a substitute for governments' and other public bodies' own responsibilities. Public bodies must have a proper and effective system of governance in place to support decision making. Both the WFG Act and the draft LG Bill, emphasise the importance of corporate governance in underpinning an efficient and effective public service.

The Auditor General is responsible for the annual external audit of the majority of public money spent in Wales, including those 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. Each year the Auditor General, supported by the Wales Audit Office, delivers a programme of external audit work, alongside certain other functions, in accordance with the Auditor General's statutory powers and duties.

This paper seeks to explore how public audit in Wales will need to develop to reflect the changes, challenges and opportunities which will increasingly define the public sector landscape in Wales. We are keen to engage the public bodies we audit in a conversation about how we develop an audit approach which is fit for the future.

The Well-being of Future Generations (Wales) Act 2015

The Welsh Government has put in place the Well-being of Future Generations (Wales) Act as the latest step in the journey to embed sustainable development in the public sector in Wales. The United Nations has highlighted the Act as a groundbreaking piece of legislation and noted its potential in relation to the recently agreed sustainable development global goals.



Source - Welsh Government: **Shared Purpose: Shared Future - Statutory guidance on the Well-being of Future Generations (Wales) Act 2015**

The WFG Act requires most public bodies in Wales to carry out sustainable development. It places a well-being duty on those public bodies to set and publish objectives designed to maximise their contribution to the seven national well-being goals². They are also required to take all reasonable steps to meet those objectives. This is intended to strengthen sustainable development in these bodies through effective governance. The Act identifies five ways of working which can support the well-being of future generations – integration, collaboration, long term, involvement and prevention.

The WFG Act places a new duty on the Auditor General to examine the extent to which each public body has applied the sustainable development principle when (a) setting well-being objectives and (b) taking steps required to meet those well-being objectives. Drawing upon his individual examinations of audited bodies, the Auditor General must provide a report to the National Assembly once during each Assembly election cycle. The first such report must be published by 2020, at least a year and a day before the 2021 Assembly election. Consultation with the Future Generations Commissioner is also a statutory requirement.

² For details of the national well-being goals, see page six of the **Essentials guide to the Well-being of Future Generations (Wales) Act 2015**

Principles

We believe it is essential to have a small number of underpinning principles as a foundation for developing our approach to audit. Overall, public audit is undertaken in accordance with the [Public Audit Forum principles](#).

Question 1

Do you agree that these should be the principles underpinning our audit work? If not, are there other principles you would suggest?

The wider context

While the new duty which the WFG Act places on the Auditor General is the catalyst for exploring how public audit in Wales needs to develop, it is important that this is done as part of the wider context. There are a number of other important challenges and opportunities facing the public sector in Wales.

The Social Services and Well-being (Wales) Act comes into force from April 2016 and creates a new legal framework for social services. The Act imposes duties and local authorities, health boards and Welsh ministers that require them to work to promote the well-being of those who need care and support (including carers). In addition to supporting well-being, the Act seeks to put people, partnership and prevention at the centre of service development. Local authorities, health boards and NHS trusts must work more closely together to integrate health and social care. Local authorities will be expected to use assessments of need, undertaken in partnership with health boards, to arrange appropriate preventative services that reduce the need for more formal support in their area.

We understand the government intends to introduce legislation to establish new counties and their councils, and has consulted on a draft Local Government (Wales) Bill. It will also seek to establish a new legislative framework for local government democracy, accountability, performance and finance. Key features of the proposed legislation include:

- providing county councils and certain community councils with a general power of competence, which will allow them to act in their communities' best interests, generate efficiencies and secure value-for-money outcomes; and
- a duty on councils to make arrangements to secure good governance.

In his recently published report [A Picture of Public Services 2015](#), the Auditor General notes that since 2010-11 public services in Wales have experienced a £1.2 billion funding cut, in the longest period of sustained real spending cuts since the development of the modern welfare state. Against this backdrop, public services face growing challenges and opportunities from changing demographics, new tax-raising powers and structural reform. Public services will need to make radical changes to the way they provide services and engage with service users if they are to build effectively on the reforming approach being adopted in Wales.

Other significant changes which affect our audit work include the faster closing of local government accounts, a more outcome-focused approach to auditing grants, fiscal devolution to Wales and wider technological changes.

Criteria

In order to ensure that any future approaches to audit are fit for purpose, we believe that they should be tested against clear and agreed criteria as they are developed. The overriding requirement is that any audit work must discharge the Auditor General's statutory duties. Against this background we suggest the following set of indicative criteria:

- a audit work will focus on the effectiveness of governance in ensuring good stewardship through the efficient and proper use of financial, human and natural resources as well as maximising public bodies' contribution to the national well-being goals;
- b wherever practicable, the requirement under the WFG Act for the Auditor General to assess the extent to which a public body has acted in accordance with the sustainable development principle, should be discharged in the course of our audit work;
- c the approach to audit should seek to enhance opportunities to provide a real time commentary, identify good practice and support shared learning;
- d audit work will seek to support and encourage the necessary changes in decision-making behaviour, rather than generating a surface compliance response amongst public bodies;
- e wherever practicable, audit work will provide more cross-sector and locality based assessments and studies;
- f in developing our approach to future audit work, we will continue to work with commissioners and other external review bodies, as well as meeting the statutory requirements to engage with particular stakeholders (eg Future Generations Commissioner); and
- g the public has a legitimate stake in external review so we will engage with the public to ensure that the citizen is key to all aspects of our audit work, including informing priorities, gathering information and reporting.

Question 2

Do you agree with the above list of criteria?

If not, what do you think the criteria should be?

Reporting

The WFG Act requires public bodies to maximise their contribution to each and every one of the seven well-being goals, in an integrated way. Accountability and reporting regimes which drive a silo approach to reporting financial and non-financial information are unlikely to be fit for purpose. They will not provide an understanding of the interdependence between the use of different resources and will, therefore, fail to provide the management information required to effectively set and take steps to achieving public bodies' well-being objectives in an integrated way.

In this context, it is interesting to note that a growing number of private sector businesses have understood that focusing only on the short-term bottom line is not enough to secure a long-term future. They are increasingly recognising that they need to think, in an integrated way, about the way they create value. A key feature of this has been the recognition that long-term success is dependent upon a number of interdependent resources: financial; manufactured; intellectual; human; social and relationship; and natural. An increasing number of these organisations are using integrated reporting to communicate a clear, concise, integrated story that explains how all of their resources are creating value. Examples of the business benefits of this approach can be found in both the private and public sectors (for example, Interserve and The Crown Estate³). Integrated reporting is helping businesses to think holistically about their strategy and plans, make informed decisions, and manage key risks to build investor and stakeholder confidence and improve future performance.

The Wales Audit Office is participating with other public bodies (including Welsh Government) in the [Integrated Reporting Public Sector Pioneer Network](#).

Question 3

Do you agree that the Wales Audit Office should be exploring the potential for developing integrated reporting within the public sector to support WFG developments?

³ [The Integrated Reporting journey: the inside story](#) gives examples of integrated reporting in practice, including Interserve and The Crown Estate

Approaches

We believe that there are various ways in which we could deliver our audit response to the WFG Act. These include:

- a We could continue with our current approach to audit and seek to integrate the requirements of the WFG Act into our existing audit work wherever practicable; for example, a governance review or a review on a specific service area could include examining how a body has adopted the five ways of working. In contrast, at Welsh Government and Welsh Government sponsored bodies (who currently receive an accounts-only audit) this would require specific additional work to discharge the Auditor General's responsibilities under the WFG Act. This work, which would be funded via audit fees, would need to be tailored to reflect the scale and range of an organisation's activities and budget.
- b We could undertake bespoke examinations specifically on the requirements of the WFG Act. This may result in additional work (and cost) at all bodies or may replace existing work.
- c We could redesign and reframe our audit work to create a more consistent approach to assessment across the public service in Wales, based, for example, on a common governance framework. The IFAC/CIPFA **International Framework: Good Governance in the Public Sector** is an example of a framework which has some synergy with the WFG Act.⁴ This would require a different approach than we currently have in local government and health. Again, this would require new work to be undertaken in Welsh Government and Welsh Government sponsored bodies but provides the benefit of a consistent framework for review across all the bodies subject to the WFG Act.

Question 4

Which of these approaches would you prefer or do you have other suggestions on how we should develop our audit approach to discharge the Auditor General's new duty under the WFG Act?

⁴ IFAC/CIPFA **International Framework: good governance in the public sector** and Appendix 1

I am also keen to identify a small number of bodies from across the Welsh public sector that I can work with directly during 2016-17 (as a transitional year) to develop and refine my audit approach.

Question 5

Would you be interested in working with us over the next 12 months to develop and test our audit approach?

How to respond

You can complete an [online questionnaire](#) or respond by e-mail to info@audit.wales.

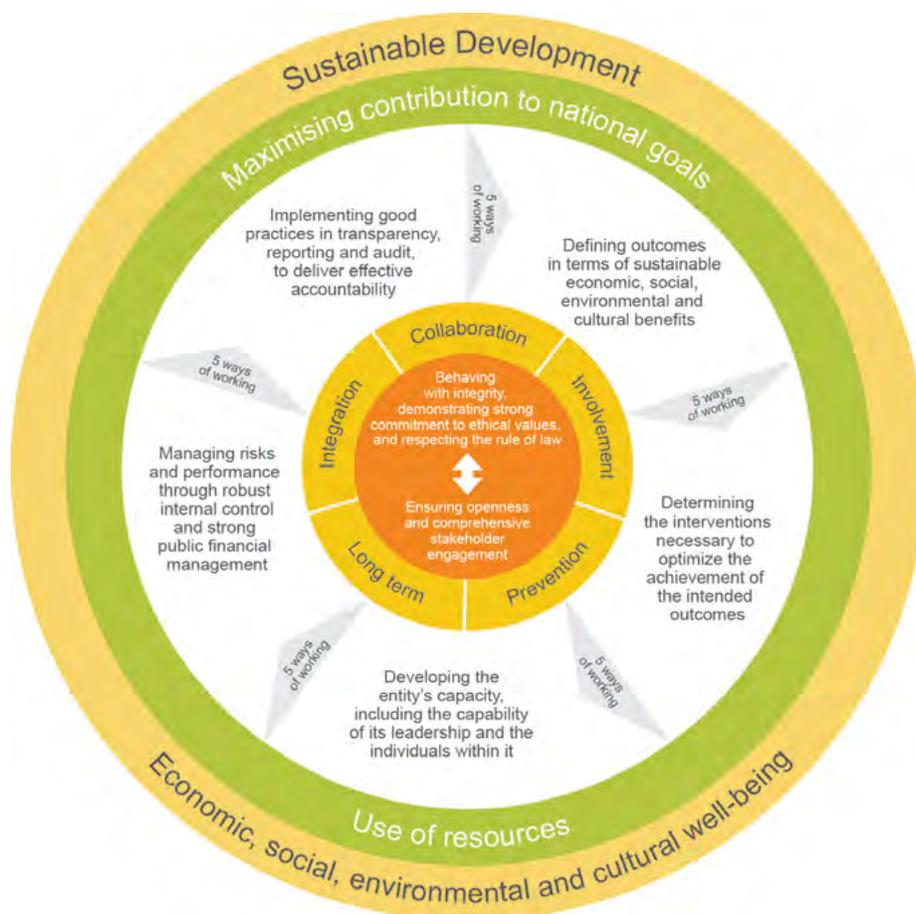
Responses can also be sent to the following address:

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Please respond by 23 May 2016.

If you require this publication in an alternative format and/or language please contact us using the details provided above or by telephone on 029 2032 0500.

Appendix 1 - Good governance in the public sector for sustainable outcomes



This diagram brings together the IFAC/CIPFA **International Framework: good governance in the public sector**, with the requirements of the Wellbeing of Future Generations (Wales) Act 2015 (the Act). The Act requires most public bodies in Wales to carry out sustainable development. It requires them to set well-being objectives, and to take all reasonable steps to achieve them, to maximise their contribution to each of the national wellbeing goals. They are required to do this in accordance with the sustainable development principle. This is comprised of five ways of working: looking to the long term, taking an integrated approach, involving people, collaborating with others and prevention. The IFAC/CIPFA framework places the attainment of sustainable economic, societal and environmental outcomes as a key focus of governance processes and structures.

The diagram shows sustainable development as all encompassing, recognising that the Act defines good governance for public service in Wales. The core behaviours of: 'behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law' and 'Ensuring openness and comprehensive stakeholder engagement' need to be applied to the five ways of working. The five ways of working (underpinned by the core behaviours) have to permeate all segments of delivering outcomes – which in turn should ensure effective use of resources as public bodies maximise their contribution to the economic, social, environmental and cultural well-being of Wales. These, in turn contribute to the **United Nations Global Goals**.

This publication 'Good governance in the public sector for sustainable outcomes' includes adapted material from 'International Framework: Good Governance in the Public Sector' of the PAIB Committee. Copyright © July 2014 by IFAC and CIPFA. All rights reserved. Used with permission. Wales Audit Office November 2015

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