

**Minutes of the WAO Board meeting  
on Wednesday 12 March 2014**

**Members:**

Isobel Garner	Chair and non-executive member
Chrissie Hayes	Non-executive member
Huw Thomas	Chief Executive and Auditor General for Wales
Peter Price	Non-executive member
Steve Burnett	Non-executive member

**Apologies:**

David Corner	Non-executive member
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**In attendance:**

Ann-Marie Harkin	Group Director, Resources	Items 8 and 15
Anthony Barrett	Assistant Auditor General, Financial Audit (AAGFA)	Items 1 to 10
Gillian Body	Assistant Auditor General, Performance Audit (AAGPA)	Full meeting
John Herniman		Items 9 and 10
Martin Peters	Compliance Manager	Items 6 to 8
Simon Edge	Auditor General's Private Secretary (AGWPS)	Item 9

Bernadette Daley Board Secretary

Item	Agenda
1	Chair's welcome and apologies for absence
2	Declarations of interest
3	Minutes of the meeting of 31 January 2014 and matters arising
4	Auditor General's update
5	Chief Executive's report
6	Governance documents: the Relationship Code, the Members' Code of Conduct and the Register of Interests
7	Elected employee members: electoral rules, timetable and terms of appointment
8	Annual plan 2014-15
9	Purchasing audit services
10	Commissioned work
11	Stakeholder survey 2014
12	Employee members: options for a research study
13	Remuneration Committee: draft terms of reference
14	AGW's forward programme
15	Staff conference evaluation
16	Report from the ARMC
17	Code of Audit Practice and Statement of Practice
18	Any other business

Item	Minutes	Action
<b>1.</b>	<b>Chair's welcome and apologies for absence</b>	
1.1	The Chair welcomed members and those in attendance to the Board's fifth meeting.	
1.2	The Chair noted one apology for absence from David Corner.	
<b>2.</b>	<b>Declarations of interest</b>	
2.1	There were no declarations of interest.	
<b>3.</b>	<b>Minutes of the meeting of 31 January 2014 and matters arising</b>	
3.1	The Board approved the minutes as an accurate record of its meeting on 31 January	BD

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	2014.	
3.2	<i>Paragraph 11.6 (scheme for charging fees 2014-15):</i> the Chair reminded the executive of the Board's request for sight of the communications plan setting out the key messages for each sector. The Auditor General confirmed that the Chair would be fully briefed in advance of her appearance before the National Assembly's Finance Committee on 20 March.	HVT / AMH
3.3	In respect of the actions outstanding from previous meetings: (a) the Board Secretary agreed to confirm whether the commitment in October to provide guidance on member-to-member communications had been discharged at the December meeting; (b) the Auditor General confirmed that the detailed guidance on progression discussed in November in the context of the senior management restructure remained outstanding pending the new corporate appointments; and (c) the Board noted that, at its meeting on 27 February, the ARMC had asked that the common audit platform project be included in the corporate risk register given its importance as the mitigating factor in a number of strategic risks.	BD
3.4	The Board agreed that the action tracker would benefit from the inclusion of target dates.	BD
<b>4.</b>	<b>Auditor General's update</b>	
4.1	The Auditor General noted an increase in the WAO's profile as a consequence of the publication of the public interest reports for Carmarthenshire County Council and Pembrokeshire County Council. He updated the Board on the reports of value for money studies he was expecting to publish by the end of the month and reminded members of the Public Accounts Committee's new working practices on which he had briefed them in January.	
4.2	The Board discussed the arrangements for briefing non-executive members about the direction and potential impact of public interest reports. Members acknowledged the important principle of audit independence but highlighted the reputational implications for the WAO in which the Board had a legitimate interest. The executive recognised the need to ensure that Board members are briefed appropriately to avoid the risk that they are unsighted of events as they unfold.	HVT
4.3	The Auditor General explained that he would be responding to the Welsh Government's stage I consultation on audit, inspection and regulation. He had also contributed to a joint response with CSSIW, Estyn and Healthcare Inspectorate Wales under the Inspection Wales umbrella.	
4.4	The Auditor General also described the arrangements the Welsh Government is putting in place to consider the recommendations of part II the Commission on Devolution in Wales (the Silk Commission). He explained that a briefing note is in preparation.	HVT
4.5	The Auditor General summarised the outcome of his consultation on local government audit and inspection fee scales for 2014-15 which had closed at the end of February. He explained that there were three main areas of contention: (a) the median increases in the combined fee scale for smaller police and crime commissioners and chief constables following a refinement of the audit requirements of these new bodies since the previous year; (b) after a refund of reserves, the 3% increase in scale fees for national park authorities reflecting the new legislative requirement to charge no more than the full cost of the audit and the additional statutory requirements of the Local	

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	Government Measure (which do not apply in England); and (c) the increase in scale fees for smaller town and community councils and reductions for larger bodies that reflect more accurately the cost of the work required but which have consequential negative impacts on the income of two of the limited assurance regime audit suppliers.	
4.6	The Auditor General explained his proposals for ensuring that those bodies adversely affected by the new legislative requirements are treated fairly and equally: (a) with the Welsh Government's agreement and in line with previous arrangements, he would use a proportion of the WPI grant to reduce the impact of the legislative requirements on national park authorities, holding their fees at the 2013-14 level; and (b) he would give a flat rate rebate of £30 to reduce fees for the smaller town and community councils.	
4.7	The Board was concerned that the principle of full cost recovery established by the Public Audit (Wales) Act 2013 was being undermined by a discretionary approach to setting fees. In discussion, the executive assured members that the proposals followed an established principle, were transparent and affordable and could be supported by coherent arguments. Nevertheless, the Board agreed that the executive should maintain a record any deviations from full cost recovery.	AMH
4.8	The Board was comfortable that, in a period of transition, the Auditor General was using his discretion consistently and reasonably to smooth the impact on audited bodies of the necessary changes to the fee regime. However, members also emphasised the need for clarity about the rationale for, and application of, the arrangements in each sector. Subject to this caveat, the Board was content to support the Auditor General's proposals as outlined at paragraph 4.6.	HVT
4.9	The Auditor General tabled the WAO's budget for 2014-15 noting that it had been reconciled to the joint estimate of income and expenses presented to the National Assembly's Finance Committee in November 2013. Whilst there were minor differences because the budget had been refined, the Auditor General confirmed that the expected call on the Welsh Consolidated Fund remained within the approved estimate.	
4.10	The Board agreed that, for consistency: (a) the annual plan for 2014-15 would continue to reflect the estimate figures; and (b) the draft business plan would include the operational budget for monitoring purposes.	KT / AMH
<b>5.</b>	<b>Chief Executive's report</b>	
5.1	In his capacity as Chief Executive, the Auditor General presented his report of the WAO's performance for the period to 31 January. He confirmed that: (a) increased levels of sickness absence had affected chargeability but the Executive Committee had approved voluntary exit packages for two long-term absentees; (b) audit income is behind profile but the delivery of audit products is broadly on track; (c) the external auditor is content with the accounting arrangements for work-in-progress and accrued leave; and (d) cash balances are managed at a more realistic level than in previous years.	
5.2	Noting the Auditor General's assurances in respect of overall performance, the Board was nevertheless concerned about the significant variances in income and expenditure from one month to the next. It acknowledged that work was ongoing to	

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	improve profiling and to refine performance management information.	
5.3	The Chair of the Remuneration Committee took the opportunity to note that his Committee had received an update on the pay negotiations at its meeting the previous day.	
<b>6.</b>	<b>Governance documents: the Relationship Code, the Members' Code of Conduct and the Register of Interests</b>	
6.1	The Chair thanked Martin Peters for his work to rationalise and incorporate the range of comments on the Relationship Code and the Members' Code of Conduct.	
6.2	In respect of the Relationship Code the Board agreed the following amendments: (a) <i>the Board's role to monitor and advise on the exercise of the Auditor General's functions in respect of the work programme (paragraph 25)</i> – strengthening the reference to efficiency and effectiveness; (b) <i>the general responsibilities of the Board (annex 1, paragraph 8)</i> – expand to include references to efficiency and effectiveness and stakeholder relationships; (c) <i>specific sole responsibilities of the Board (annex 1, paragraph 10)</i> – clarify the reference to expenses at sub-paragraph (g); (d) <i>summary of the main similarities and differences between board roles under the UK Corporate Governance Code and the requirements of the 2013 Act (annex 2)</i> - explain the Board's role in setting the WAO's corporate direction as part of strategy development and - add a reference to the Board as the employer and as the owner of assets.	
6.3	The Board was content for the Chair and the Auditor General to agree the detailed drafting changes. Members noted that the National Assembly would need to approve the Code.	IG/HVT /MP
6.4	In respect of the Code of Conduct, the Board discussed: (a) the requirement, under Auditing Standards for an Ethics Director; (b) rationalising the references to members' compliance with various policies and ensuring that appropriate training is provided; (c) ensuring that the Code does not preclude constructive challenge by members; (d) the need for mutual trust in the application of the Code's provisions; (e) greater clarity in respect of the circumstances in which members would be deemed to have used their official position to further their private interests; (f) extending the provisions on political activities to include media and other communications whilst also incorporating some additional flexibility to recognise the general principle that such activities must not compromise the WAO; and (g) applying the same principle to lobbying and access to members of public bodies.	
6.5	The Board was content for the Chair and the Auditor General to agree the detailed drafting changes.	IG/HVT /MP
6.6	Members agreed to complete a new notice of registration of interests.	Board
<b>7.</b>	<b>Elected employee members: electoral rules, timetable and terms of appointment</b>	
7.1	The Board was reminded that, at its meeting in December 2013, it had approved the draft electoral rules and the proposed election timetable for consultation with staff. The consultation period closed on 10 February and had elicited two written responses from the trades' unions, both of whom were content.	
7.2	The Board noted that the revised electoral rules took account of questions raised at the staff conference in January, notably in respect of providing specifically for:	

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	(a) the availability of nomination forms for inspection; and (b) publication of an overview of the election results and the availability of full results on request.	
7.3	The Board also noted that the Cabinet Office had determined that the allowance to be paid to employee members would not be pensionable under the PCSPS.	
7.4	The Board suggested two further drafting amendments: (a) to clarify, in the electoral rules, the arrangements if a casual vacancy arises; and (b) to specify that the term of appointment will be coterminous with those of non-executive members i.e. to 16 October 2017.	MP
7.5	The Board discussed the process for allocating an elected candidate's surplus votes.	
7.6	The Board also discussed the implications of candidates citing the support of a trade union.	
7.7	The Board resolved to adopt the electoral rules, the election timetable and the employee members' terms of appointment. It also agreed to conduct a post-implementation review of the election process.	MP / BD
7.8	The Board appointed Peter Price as the Elections Officer.	
<b>8.</b>	<b>Annual plan 2014-15</b>	
8.1	The Group Director, Resources reminded the Board that it had considered the draft annual plan for 2014-15 at its meeting in January. She confirmed that she had taken into account the suggested amendments and invited further comments as well as a nominee to support any remaining drafting amendments.	
8.2	The Chair confirmed that she would work with management to finalise the plan for the National Assembly's Finance Committee.	IG / AMH
8.3	The Chair also confirmed that she and the Auditor General had agreed their respective forewords for incorporation into the plan.	
<b>9.</b>	<b>Purchasing audit services</b>	
9.1	The Chair reminded members of the briefing they had received on 11 March covering: (a) the Auditor General's rationale for contracting with a range of audit suppliers and his future needs; (b) the different perspectives of the WAO's financial and performance audit directors' committees and of the firms in respect of their expectations of the contracting arrangements; and (c) the financial implications for the WAO of the Auditor General's preferred contracting option.	
9.2	The Chair also reminded members that they had discussed: (a) the number of current suppliers and the proposed configuration for financial audit work; (b) their concerns about the risks attached to the preferred approach for performance audit work which they thought might be overly bureaucratic; and (c) the need to be transparent about the firms contribution to overheads in the context of the legislative requirement that the WAO must not charge more than the full cost of audit work.	
9.3	The Board accepted the executive's advice and supported the Auditor General's preferred contracting proposal as described in the briefing note.	
<b>10.</b>	<b>Commissioned work</b>	

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10.1	The Chair reminded members of the briefing they had received on 11 March in which they explored the benefits of undertaking commissioned work performed under the Auditor General's ancillary powers. They had discussed the nature, scope and value of the work, its fit with core functions for resourcing purposes, the professional indemnity insurance arrangements and the approval process.	
10.2	The Board was comfortable to continue with commissioned work on the basis that it would expect to approve all proposals and that the ARMC would have a role in scrutinising the arrangements. Any time critical decisions needed outside the Board meeting cycle would be referred to the Chair and the Auditor General. Members noted that the executive would revisit the commissioned work strategy and governance arrangements for Board approval.	JH
<b>11.</b>	<b>Stakeholder survey 2014</b>	
11.1	The Chair reminded members that, at their briefing session on 11 March, they had received a presentation summarising the scope and results of stakeholder surveys conducted by the WAO or to which it had subscribed since 2012.	
11.2	The Board considered a proposal to conduct a stakeholder survey in the Spring of 2014 to support the Auditor General's account of progress in achieving strategic objectives in his annual report and accounts for 2013-14.	
11.3	Members emphasised the importance of ensuring that the survey meets the needs of the Board as well as of the Auditor General and agreed that Chrissie Hayes and Steve Burnett would support its development. The Board will receive an update at its next meeting.	SM
<b>12.</b>	<b>Employee members: options for a research study</b>	
12.1	The Board received a proposal for a study to track its development in light of its unique constitution that encompasses elected employee members. The Board agreed that such a study would support the WAO's own learning but also that its results could add value to the experience of other public bodies should the employee participation model be extended.	
12.2	The Board also agreed: (a) to commission an external supplier to bring an independent perspective to the work; (b) that the study should focus on tracking the WAO's arrangements rather than on examining good practice from elsewhere in Europe given the different legal, constitutional and cultural factors that apply; (c) that it was not seeking a solely academic study but one whose outcomes could be applied practically; and (d) that the study should start as soon as possible, subject to the identification and procurement of a suitable supplier, in order to track progress against the Welsh Government's expectations.	
12.3	The Board authorised the Auditor General to approve a request for expressions of interest on its behalf.	HVT / BD
<b>13.</b>	<b>Remuneration Committee: draft terms of reference</b>	
13.1	The Chair of the Remuneration Committee explained that, at its meeting the previous day, the Committee had adopted its terms of reference subject to some drafting amendments.	
13.2	The Board approved the Committee's terms of reference.	
<b>14.</b>	<b>AGW's forward programme</b>	

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14.1	The AAGPA presented a confidential draft of a briefing paper for the Public Accounts Committee (PAC) covering: (a) an update on value for money and other audit work in progress; and (b) proposals for potential topic areas for future value for money studies.	
14.2	The AAGPA explained that the PAC had received a summary of the paper at its meeting on 6 March. The Auditor General would take the Committee's comments into account in producing his final paper. He would also be conducting a wider consultation with key stakeholders before finalising his plans.	
14.3	The Board noted the criteria that would be used to inform the Auditor General's final programme of studies and the current uncertainty about the extent to which the PAC might want to commission additional work of the Auditor General. It discussed the need for the Board to be sighted of the potential impact on the Auditor General's work of any decisions on implementing the Williams' Commission's report on Public Service Governance and Delivery and the Silk Commission's report on Devolution in Wales.	
14.4	The Auditor General explained that there were two issues that might influence his resource requirements. First, he had noted an increase in demand for forensic accounting skills in his work and would be requesting additional resources to address the gap. Second, he was not yet able to judge any additional demands to inform the work of other Assembly committees.	
14.5	The Board noted that there would be further opportunities for it to comment on the forward programme in the context of its responsibilities to provide resources for exercising the Auditor General's functions and to monitor and provide advice.	
<b>15.</b>	<b>Staff conference evaluation</b>	
15.1	The Board considered the initial feedback from the staff conference noting that it was a generally positive experience for staff and the participating charities. Members also noted: (a) that there may be further opportunities to work with some of the charities as part of Ignite III; (b) the arrangements in place to co-ordinate fundraising activities for the staff charity; and (c) the proposals to assess the longer term impact of the conference.	
15.2	The Chair reminded members that the conference had been a learning and development event for staff and its impact needed to be evaluated from that perspective. She also reaffirmed that any activities to support the staff charity must be led by staff and not at public expense.	
15.3	The Board discussed the feasibility of measuring the impact of the event in a meaningful way noting that many of the benefits were qualitative.	
15.4	The Board congratulated the project team for organising a very successful event, as evidenced by staff feedback. It encouraged staff to lend their support to their chosen charity whilst ensuring that the Auditor General's independence is not compromised through their activities.	
15.5	The Board noted the proposals to assess the longer term impact of the conference, the outcome of which it would receive at a future meeting.	AMH
<b>16.</b>	<b>Report from the ARMC</b>	
16.1	Chrissie Hayes presented the ARMC's formal report of its meeting on 27 February noting:	

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	(a) that the agenda was governed by the timetable for the production and audit of the annual report and accounts for 2013-14; (b) that there were no issues on which the Board needed to take action; (c) the Committee's expectation that both the Director of Corporate Services and the Director of Finance to attend future meetings; (d) the internal auditor's ongoing review of risk management and the Committee's views on the WAO's current arrangements; (e) the conclusions of the internal audit reports received at the meeting and the follow-up arrangements; and (f) the position in respect of the appointments of the internal and external auditors.	
16.2	The Board discussed its role in the appointment of the external auditor noting that discussions with the National Assembly's Finance Committee were underway.	
16.3	The Board also noted that the Director of Corporate Services, once appointed, would need to review the current pilot arrangements for the internal audit service and recommend next steps.	
16.4	The Board discussed its role in monitoring and reviewing the corporate risk register given the delay in the review of the WAO's risk management arrangements. The Board Secretary agreed to discuss with the Chair of the ARMC.	BD
<b>17.</b>	<b>Code of Audit Practice and Statement of Practice</b>	
17.1	The Auditor General presented for information his new Code of Audit Practice and the Statement of Practice for his local government improvement audit, assessment and special inspection functions. He explained that the consultation had attracted a good range and quality of comments, drawing the Board's attention in particular to the Audit Commission's and National Audit Office's misunderstanding of the Welsh Government's statutory duty to promote sustainable development which had necessitated an expanded explanation in the Code.	
17.2	The Auditor General explained that WAO staff must agree to comply with his new Code in order that he may delegate any of his functions to them. Arrangements were in hand to secure that agreement.	
17.3	The Board noted the Code of Audit Practice and the Statement of Practice.	
<b>18.</b>	<b>Any other business</b>	
18.1	The Chair explained that, to ensure continuity until completion of his annual report and accounts for 2013-14, the Auditor General intended to extend the appointment of Gilbert Lloyd as an independent member of the ARMC until 30 September 2014. However, with responsibility for the appointment transferring to the Board from 1 April, he needed members' agreement to the extension.	
18.2	The Chair proposed that, to secure a more permanent arrangement for the appointment of an independent member, the Board should develop: a role specification covering the knowledge, skills and behaviours required; and an open recruitment process to fill the position.	
18.3	The Board approved the extension to Gilbert Lloyd's appointment until 30 September 2014 pending the establishment and completion of a formal recruitment process.	HVT / BD
18.4	The Chair summarised the items expected at the next Board meeting.	
<b>19.</b>	<b>Date of next meeting</b>	
19.1	Wednesday 23 April 2014 in Swansea.	