

National Assembly for Wales: 1999-2000 Account

Report by the Auditor General for Wales

January 2001

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Introduction

1. The National Assembly for Wales (the Assembly) came into existence on 7 May 1999 following the passing of the Government of Wales Act 1998 and the first ordinary election of Members. Most of the functions of the Secretary of State for Wales, arising from over 300 Acts of Parliament, were transferred to the Assembly on 1 July 1999 in accordance with the National Assembly for Wales (Transfer of Functions) Order 1999 (SI 1999/672) made under Section 22 of the Act. All property, rights and liabilities of the Secretary of State associated with the exercise of those functions were also transferred to the Assembly on that date.
2. The Assembly's resource account for the period 7 May 1999 to 31 March 2000 has been prepared in accordance with Section 97 of the 1998 Act and with a direction issued thereunder by the Treasury on 18 October 2000. In this report, and without qualifying my audit opinion, I summarise the main issues arising from my examination of this account – the first to be prepared by the Assembly. I also comment on a number of important planned developments, which will impact significantly on the preparation of future such accounts.

Development of resource accounting and budgeting

3. Since 1866, government departments have prepared their annual accounts (known as appropriation accounts) on a receipts and payments basis. These accounts show the cash amounts paid and received by departments during the year with explanations for significant variations from the Supply Estimates approved by the House of Commons. They treat capital and revenue expenditure in an identical manner, and do not reflect the underlying use of resources (including those purchased from capital budgets in earlier years) by departments. Moreover, they do not include balance sheets that show the value of departments' assets and liabilities at the year-end.
4. From the 1999-00 year of account, the Treasury has directed that government departments should produce resource accounts in parallel with appropriation accounts. Resource accounts are commercial style, accruals based, show the full cost of resources utilised during the year and include year-end balance sheets. The guidance for the production of these accounts is contained in the Resource Accounting Manual. In compiling the Manual, the Treasury had full regard to

Financial Reporting Standards issued by the Accounting Standards Board, and it is therefore in line with best accounting practice in the United Kingdom.

5. Under the Government Resources and Accounts Act 2000 the Treasury will require departments to produce their annual estimates on a resource (rather than the present cash receipts and payments) basis for the 2001-02 financial year onwards. From then, departments will no longer be required to produce appropriation accounts.

Introduction of resource accounting in the National Assembly for Wales

6. From the outset, the Treasury intended to direct the Assembly under Section 97 of the Government of Wales Act 1998 to produce its annual accounts on a resource basis. With this in mind, the former Welsh Office joined other government departments in producing a 'dry run' account for 1998-99. The National Audit Office undertook a full audit of that account and I reported its findings to the Assembly in my General Report on the Financial Audit of 1998-99 accounts (published on 17 March 2000).
7. I am pleased to report that Assembly staff have addressed some of the problems that arose during the 1998-99 exercise and that I referred to in my General Report. In particular, the quality of the information provided in support of the figures in the 1999-00 accounts is much improved, and it is evident that senior management is demonstrating a greater involvement in the account preparation process.
8. The Treasury also directed that an account be prepared for the former Welsh Office for the period 1 April to 30 June 1999. The notes supporting the balance sheet at 30 June 1999 show the value of assets and liabilities transferred to the National Assembly on the following day. This account was laid before the Assembly on 11 July 2000 and was the first resource account to be published for a government department in the United Kingdom, albeit one that covered only part of a financial year and with some disclosure exemptions granted by the Treasury.

Examination of the Assembly's 1999-2000 resource accounts

Preparation of the accounts

9. Under Section 97 of the Government of Wales Act 1998 as amended by the Government Resources and Accounts Act 2000, the Assembly is required to forward to me its signed accounts by no later than 30 November of the financial year following that to which the accounts relate. The

Accounting Officer signed the account for the period ended 31 March 2000 on 29 November 2000, in accordance with this statutory requirement.

10. Originally, the Finance Group agreed with National Audit Office Wales staff to provide an account for audit by the end of July. In the event, this was not achieved until 18 October - some two and a half months after the agreed date and six and a half months after the end of the period to which the account relates. This account presented for audit had some important differences such that the final signed account incorporated a number of significant amendments both to the figure work and to the presentation. The Finance Group informed me that the main reasons for the difficulties encountered were:

- Unforeseen accounting difficulties created by the transfer of functions from the Welsh Office to the Assembly on 1 July 1999;
- The need to produce two sets of accounts for audit during a 12 month period - the 1999-2000 accounts and the accounts at 30 June 1999 (paragraph 8 refers);
- Shortage of suitably qualified accounting staff; and
- Difficulties in obtaining and compiling some of the essential accounting information to the necessary internal deadlines.

11. For 1999-00, the Treasury has exempted the Assembly from the requirement to consolidate within its account those of the Welsh health authorities and its executive agency (Cadw: Welsh Historic Monuments). Also the Assembly was not required to prepare a Statement of Resources by Aim and Objectives. These exemptions were given solely as a result of the decision to transfer the Secretary of State's functions to the Assembly part way through the financial year. They will not apply from 2000-01 onwards.

12. Given the additional accounting requirements to be placed on the Assembly from 2000-01, it is important that senior management staff act promptly to identify and address the lessons to be learned from the difficulties and the delayed preparation of the 1999-00 account. In particular, the Finance Group should ensure that it has an adequate number of qualified and experienced accounting staff assigned to this task. In addition, the Group needs to devise more rigorous internal procedures with a view to ensuring that an acceptable account is delivered for audit in line with the agreed timetable.

Assets and liabilities transferred from the Welsh Office on 1 July 1999

13. In my report published with the Welsh Office account for the three-month period ended on 30 June 1999, I commented on certain functions and the related assets and liabilities that had not transferred to the Assembly as intended on 1 July 1999. These functions were mainly in respect of European structural funds and other grant schemes where the Assembly is required to exercise its powers concurrently with a Minister of the Crown. I am satisfied that these functions were subsequently transferred legally, on or before 31 March 2000. Between 1 July 1999 and the ultimate date of transfer, these functions were carried out by the Assembly through agency agreements made under Section 41 of the Government of Wales Act 1998. The Assembly's 1999-2000 resource accounts disclose payments of £69.5 million made by the Assembly on behalf of the Secretary of State for Wales under these agreements.
14. As part of my audit of the Assembly's account for the period ended on 31 March 2000, I examined the accounting entries for the assets and liabilities transferred from the Welsh Office including transfers made subsequent to 1 July 1999. In all material respects I am satisfied that the appropriate assets and liabilities have been properly transferred and that they have been properly reflected in the Assembly's accounting records.

Reconciliation of the Assembly's general ledger to its bank statements

15. The Assembly's accounting system contains a general ledger that summarises the individual financial transactions in a form that is suitable for the production of its annual accounts and internal management information reports. One of the key financial controls supporting the integrity of the general ledger is its reconciliation to the monthly bank statements. In essence, the ledger should be capable of reconciliation to these external statements after adjusting for unrepresented cheques and uncleared receipts. In the absence of such regular and prompt reconciliations that are fundamental to the financial control process, the Assembly runs the risk of payments being made without being brought properly to account (including possible erroneous or fraudulent payments) and remaining undetected.
16. As a result of staffing difficulties, the Finance Group had not fully completed any of the monthly bank reconciliations from the transfer of functions in July 1999 to the summer of the year 2000. The March 2000 bank reconciliation, which supports a key figure in the year-end balance sheet, was not completed until late September 2000. There is also a knock-on effect in respect of the

bank reconciliations for the current financial year, which was only being addressed towards the end of the year 2000.

17. From my test examination, I found no evidence to suggest that erroneous or fraudulent payments had arisen during the period in which reconciliations were not being undertaken. However, the existence of a backlog of monthly bank reconciliations did cause considerable difficulties in preparing and auditing the resource account. I asked the Finance Group to clear the current year backlog as a matter of urgency and to ensure that, in future, bank reconciliations are undertaken on a regular and timely basis. Assembly officials told me that, as at the date of this report, they had completed the reconciliations for the current financial year up to and including October.

Future developments affecting the Assembly's resource accounts

Resource budgeting

18. When introduced, resource-based budgeting will enable the budgets and annual accounts to be compiled on a similar basis. These budgets will include the cost of holding capital assets as well as revenue costs. When fully implemented they will facilitate meaningful comparisons between the financial outturn and the original estimates.
19. The Treasury has set a timetable that requires all government departments to introduce resource-based budgeting from 1 April 2001. In Wales, Section 15 of the Government Resources and Accounts Act 2000 empowers the Secretary of State, with the Assembly's agreement to amend by Order the Government of Wales Act 1998 to facilitate the introduction of resource budgeting within the Assembly. The Assembly's Cabinet has endorsed the principle of cash-based budgeting for 2001-02 but is considering the introduction of resource-based budgeting for 2002-03 onwards. I will keep developments in this important area under review.

Whole of Government of Wales accounts

20. In accordance with Section 101A of the Government of Wales Act 1998, (as inserted by Paragraph 24 of Schedule 1 of the Government and Resources Act 2000), and at a time determined by the Treasury, the Assembly will be required to prepare and publish Whole of Government of Wales Accounts on a resource accounting basis. I will be required to audit these accounts. To achieve this objective, the Treasury proposes to direct the Assembly to consolidate within its accounts the financial results of public bodies in Wales on an incremental basis from the

2000-01 financial year. For its part, the Treasury will also be required to prepare a whole of government account for the United Kingdom.

21. For 2000-01, the Assembly will consolidate within its own accounts the audited accounts of Cadw, the five Welsh health authorities and the newly formed Welsh European Funding Office. In future years, the process will lead eventually to the consolidation into the Assembly's accounts of the results of all Assembly sponsored public bodies, National Health Service Trusts and local authorities. This will result in an important annual summary being produced of the financial activities and performance of the public sector in Wales. The National Audit Office Wales is liaising closely with Assembly officials over the preparatory work required for this important and demanding initiative.

New accounting system

22. The Assembly inherited its current accounting system from the former Welsh Office. The system had been implemented with the primary purpose of facilitating effective financial management and control on a cash basis and the preparation of annual appropriation accounts. Both the Assembly and the former Welsh Office have prepared resource accounts from the current system. However, the production of these accounts has required the manual collection and analysis of certain accruals-based financial information after the year-end and the use of stand-alone systems for the reporting of certain balance sheet figures such as fixed assets and stock.
23. The Assembly intends to replace this system with a fully integrated accruals-based accounting system. This should ensure that the financial management and reporting structures under resource accounting and budgeting are linked more directly to the supporting financial information. In my General Report on the Financial Audit of 1998-99 Accounts, I stated that the Assembly originally intended to implement the new system on 1 April 2001. However, the Permanent Secretary told the Audit Committee on 15 June 2000 that this had been deferred to 1 April 2002 to enable an extended period for design and testing. Until this new system is fully operational and working so that it enjoys the confidence of those taking decisions, the full benefits of resource accounting and budgeting will not be achieved. In particular, various key financial decisions will continue to be taken on the basis of cash-based rather than resource-based information.

24. Assembly officials will need to ensure that the project is prioritised and staffed appropriately to achieve its full implementation by 1 April 2002. I intend to examine the progress made as part of my audit of the 2000-01 resource accounts.

Conclusions

25. I have provided an unqualified opinion on the Assembly's 1999-2000 resource account, which includes the assets and liabilities transferred from the Welsh Office on 1 July 1999. The Assembly has made good progress in addressing the concerns that I have raised previously - particularly in relation to the quality of the audit trail provided in support of the account.

26. However, the Assembly will need to address the issues that I have raised in this report especially the delay in reconciling the general ledger to the bank statements, and the difficulties with the accounts preparation process. The latter is critical as the accounting requirements are set to become more onerous in the years ahead.

27. The successful and early introduction of a fully integrated accruals based accounting system is necessary to enable the Assembly to benefit fully from the introduction of resource accounting and budgeting. It will enable various key financial decisions to be taken on the basis on resource rather than cash-based financial information. It will also enable the Assembly to move away from the present unsatisfactory arrangements whereby the annual accounts are prepared from information collected from a variety of sources well after the year-end.

John Bourn

Auditor General for Wales

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National Assembly for Wales

Cardiff Bay

CARDIFF

CF99 1NA