

## Agenda – Finance Committee

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Meeting Venue:

**Committee Room 2 – Senedd**

Meeting date: Wednesday, 11

November 2015

Meeting time: 09.00

For further information contact:

**Bethan Davies**

Committee Clerk

0300 200 6565

[SeneddFinance@Assembly.Wales](mailto:SeneddFinance@Assembly.Wales)

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### **1 Introductions, apologies and substitutions**

(09.00)

### **2 Papers to note**

(09.00)

**Letter to Chair of Finance Committee from Public Services Ombudsman for Wales**

(Pages 1 – 3)

### **3 Legacy inquiry: Evidence session 1**

(09.00 – 09.45)

(Pages 4 – 22)

Mark Drakeford AM, Minister for Health and Social Services

Dr Andrew Goodall, Director General for Health/NHS Chief Executive, Health and Social Services Group, Welsh Government

Leighton Phillips, Deputy Director of Strategy and Planning, Welsh Government

Martin Sollis, Director of Finance, Welsh Government

Paper 1 – Overview of progress in implementing the National Health Service

Finance (Wales) Act 2014

Research briefing

### **4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

(09.45)

Items 5, 6 and 7



## **Break**

(09.45 – 10.00)

## **5 Legacy inquiry: Consideration of evidence**

(10.00 – 10.15)

## **6 Draft Wales Bill**

(10.15 – 10.30)

Paper 2 – Draft letter

## **7 Wales Audit Office**

(10.30 – 10.45)

(Pages 23 – 42)

Paper 3 – External Audit Report on the Accounts 2014–15

Our ref: NB/SMH

Ask for: Nick Bennett

Your ref:



01656 641150

Date: 29 October 2015



Mrs Jocelyn Davies  
Chair of the Finance Committee  
National Assembly for Wales  
Cardiff Bay  
CARDIFF  
CF99 1NA

Dear Jocelyn

### **Tax Collection and Management (Wales) Bill**

Thank you for your letter dated 21 October 2015 seeking further information on my response to the Finance Committee's consultation on the Tax Collection and Management (Wales) Bill. Here are my responses to your queries:

- **What discussions have taken place between yourself and the Welsh Government regarding your role in dealing with complaints against the Welsh Revenue Authority (WRA)?**

Meetings were held with Welsh Government officials concerning the potential of the Welsh Revenue Authority being a body within the Public Services Ombudsman for Wales's (PSOW's) jurisdiction. I agreed that it would be consistent, and appropriate, for the Welsh Revenue Authority, as a devolved body, to be a listed authority under Schedule 3 of the Public Services Ombudsman (Wales) Act. People in Wales currently have access to the Parliamentary Ombudsman in respect of the present arrangements for Stamp Duty Land Tax and Landfill tax; it follows that there should be recourse to the PSOW for the new devolved Land Transaction Tax and Landfill Disposals Tax arrangements

Also discussed was the fact that, should the WRA be brought within my jurisdiction, I would expect that body to have an appropriate complaints handling procedure in place.

- **What type of complaints do you envisage arising from devolved taxes?**

I would anticipate that the complaints I would consider would relate to administrative failures or errors not already resolved by the Welsh Revenue Authority.

- **How do you currently interact with tribunals and do you anticipate all cases against the WRA being considered by tribunal in the first instance?**

To my recollection, the role of the PSOW in relation to tribunal arrangements for devolved tax collection and management has not been explored; discussions have been centred on the PSOW's role in considering complaints of maladministration by the Welsh Revenue Authority.

However, in response to your query, my interaction with tribunals varies depending on the nature of the tribunal concerned, for example:

- in relation to school appeal and school exclusion panels, these are listed authorities under Schedule 3 of the PSOW Act 2005. In these circumstances, I can consider whether the panel and/or its staff acted maladministratively;
- in the case of tribunals which are specified by Welsh Ministers, such as valuation tribunals, I can only look at the administration function carried out by the tribunal's staff, I have no power to consider the decision of the tribunal itself.

Now, in relation to a tribunal concerning the Welsh Revenue Authority, there appears to be a complication. As I understand it, it is intended to enter into an arrangement with the UK's Ministry of Justice (MoJ) and use that Ministry's two-tier tax tribunal system. As the MoJ is a non-devolved government department, the question arises as to whether maladministration complaints about MoJ administered tribunals are ones that should come within the PSOW's jurisdiction (as these are devolved matters), or the jurisdiction of the Parliamentary Ombudsman (who considers complaints about the MoJ and the staff of its tribunals). I would venture that this is a question for those with a role in advising upon 'devolved competence' matters to provide a view.

- **Do you foresee a need for devolved taxpayers to be given any right of recourse where they have otherwise failed to exercise their rights under the Tax Collection and Management (Wales) Bill (or the tax specific legislation when it is enacted)?**

Under the jurisdiction that I have, when someone has a right to appeal to a tribunal and it is evident that it was not reasonable to expect them to have exercised that right, for example, due to incorrect advice provided by the public body, then I would be able to investigate that body (the WRA in this case). But this would be in exceptional circumstances and not merely on the basis that the person concerned simply did not take up the rights that they had.

I hope that my answers above are helpful and sufficiently comprehensive for your purposes.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nick Bennett', with a large, sweeping flourish above the name.

Nick Bennett  
Ombudsman

## **NATIONAL ASSEMBLY FOR WALES: FINANCE COMMITTEE**

### **NATIONAL HEALTH SERVICE FINANCE (WALES) ACT 2014**

**Date: 11 November 2015**

**Venue: Senedd, National Assembly for Wales**

#### **1. Purpose**

To provide Committee Members with an overview of progress in implementing the National Health Service Finance (Wales) Act 2014, including the integrated medium term planning arrangements, which continue to be strengthened.

#### **2. Background**

As Committee members are aware, the National Health Service (Wales) Act 2014 came into effect 1 April 2014. The Act:

- resets the Local Health Boards financial duty period from one year to 3 years;
- requires Ministers to give directions to Local Health Boards to prepare a plan which set out their strategy for securing that it complies with the 3 year financial duty while improving:
  - (i) the health of the people for whom it is responsible, and
  - (ii) the provision of health care to such people; and
- ensures local health board planning duty compliance is subject to the plan being prepared, in accordance with Minister direction, submitted to and approved by the Welsh Ministers

The Ministerial direction to Local Health Boards is achieved through the issue of the NHS Wales Planning Framework, which describes the planning system, sets out national planning requirements, and the stages of the planning cycle. The first planning framework, which is also applicable to NHS Trusts, was issued to the NHS on 4<sup>th</sup> November 2013, and signalled the start of the first (2014/15 to 2016/17) planning round under the new arrangements. The second planning framework was issued on 31<sup>st</sup> October 2014, which was refined to take account of experience of running the first year of the planning cycle in time to inform the second (2015/16 to

2017/18) round of plans. The third planning framework was issued 9<sup>th</sup> October 2015 and aims to consolidate arrangements as we move into the third year (2016/17 to 2018/19) of the new approach to planning.

### **3. The planning system and cycle**

Significant work has taken place along side the introduction of the new legislation to strengthen national and local planning systems and put in place a clear planning cycle. This work has been described within the latest planning framework but a brief summary follows against each stage of the planning cycle.

#### 3.1 Issue of national planning requirements (October)

Through the issue of successive NHS Wales Planning Frameworks, the Welsh Government has consolidated and set out its expectations of health boards and trusts in relation to integrated medium term planning and offered complete transparency around how it intends to approach plan assessment. An annual refresh of the planning framework takes place to ensure the arrangements can be developed and strengthened year on year, responding to feedback. The clarity offered by the frameworks, and their integrated nature spanning clinical service, workforce, and financial planning, has been commended both within and outside NHS Wales.

As always, some priorities will emerge during the course of the ongoing planning cycle. Some priorities will be on an individual organisation basis and will be reflected in chief executive accountability letters at the time of approval and, where necessary, throughout the year. Other priorities emerging on a pan-NHS Wales basis and are issued through the NHS Planning Framework and Welsh Health Circular.

#### 3.2 Development/refresh and submission of integrated medium term plans (October – January)

All health boards and trusts are required to develop or refresh their plans for submission to the Welsh Government by the last working day of January. All

organisations have met this target in the first two planning rounds. As set out within the Welsh Health Circular accompanying this year's planning framework, organisations with approved plans in place from the last round will concentrate on refreshing their plan, providing increased delivery detail around 2016/17 and pushing the plan on a further year into 2018/19. Organisations without approved plans in place will be expected to develop and submit plans with a high level of detail in all areas and across all years.

### 3.3 Welsh Government assessment of final draft plans, with feedback to NHS organisations (February).

The Welsh Government has put in place a robust assessment process, which includes a detailed multidisciplinary scrutiny by officials from across the Department of Health and Social Services and, where appropriate, other departments. The assessment also draws on wider evidence from audit and inspection bodies, including the Wales Audit Office's structured assessment and involves extensive discussions with senior executives from health boards and trusts. In both planning cycles, feedback has been given to Health Boards and Trusts within three weeks of plan submissions, to ensure it could be taken into account before final Board scrutiny and approval. The Welsh Government's assessment process has been quality assured by external independent assessors and audited by Welsh Government Internal Audit. The Auditor General for Wales, in the "NHS Wales: Overview of Financial and Service Performance 2013-14" report published October 2014, noted:

"Ahead of 2014-15, all NHS bodies submitted integrated three-year plans to the Department. The Welsh Government's Internal Audit Service has reviewed the process for reviewing and approving the plans and concluded that it could give full assurance that the process was operating effectively. We also view the fact that only four of the ten NHS bodies had their plans approved by the Minister as evidence that the Welsh Government has been challenging and is pushing the NHS to improve the quality of its planning."

### 3.4 Board approved final plans submitted to Welsh Government for final assessment.

As statutory public sector bodies the primary responsibility for plan approval and delivery rests with the Boards of Health Boards and Trusts or relevant governing structures for NHS support organisations. Before submitting plans to the Welsh Government, organisations are required to have confidence that what is set out within the plan can be delivered, with a robust approach to performance management and the management of risk. As discussed by the Finance Committee during the passage of the Act, the Welsh Government has made it a requirement for evidence of the scrutiny of plans to be made available on Health and Trust Board public websites. All organisations with plans considered and approved by the Minister have been approved by Boards in advance of their submission to Welsh Government.

### 3.5 Ministerial approval of final plans (April – June 2015)

Throughout the passage of the NHS Finance (Wales) Act 2014, I reassured Assembly Members on several occasions, including those on the Finance Committee, that plans would only be approved by the Welsh Government following board-level robust scrutiny and approval of health board and NHS trust plans, and when they met the requirements of the NHS Wales planning framework. All Welsh Government approved plans have passed this test.

I was also clear that the Welsh Government's approval of plans in no way abdicates health board and NHS trust board accountability for the delivery of services or prejudices the outcome of any due processes required to implement the plan. For example, any service changes should be carried out in line with the Guidance on Engagement and Consultation and would be subject to normal business case approval processes. This is picked up during the assessment process and this has been a firm condition of Ministerial approval.

#### **4. Plan approval status**

To ensure complete transparency of plan approvals, in both the 2014/15 and 2015/16 planning rounds, I have issued written statements to Assembly Members setting out the plan approval status for each organisation and the reason for decisions.

In 2014/15, I approved the following integrated medium term plans: Cwm Taf University Health Board; Cardiff and Vale University Health Board; Abertawe Bro Morgannwg University Health Board and Velindre NHS Trust.

In 2015/16, I approved the plans of Cwm Taf University Health Board; Cardiff and Vale University Health Board; Abertawe Bro Morgannwg University Health Board; Powys Teaching Health Board, Aneurin Bevan University Health Board, Public Health Wales NHS Trust and Velindre NHS Trust.

In both the 2014/15 and 2015/16 planning rounds, managed financial flexibility has been afforded to those health boards and NHS trusts able to demonstrate a sufficiently-integrated and prioritised three-year plan, drawing together service, workforce and financial considerations.

In both 2014/15 and 2015/16, for different reasons, Hywel Dda University Health Board, Betsi Cadwaladr University Health Board, and the Welsh Ambulance Service Trust have been unable to achieve Board approval of an integrated medium term plan, which meets the requirements of the NHS Wales Planning Framework. All organisations have agreed annual plans in place.

My approval of integrated medium term plans is not to suggest the plans are perfect in every area. It reflects the level of confidence the Welsh Government has that organisations are responding to the priorities as set out in the NHS Planning Framework and that their Boards are effective at scrutinising and approving the plans; have accepted any risks within them; and have clear mechanisms for ensuring delivery.

Where plans need to be strengthened, the Director General and Chief Executive of NHS Wales has picked up the areas with the Chief Executives of each health board and trust through plan approval accountability letters. The accountability letters contain the conditions and expectations for Health Boards and Trusts around key deliverables for year one of the plans and, if requested and approved, the terms of any adjustments to the resource allocation.

## **5. Plan delivery**

The Welsh Government's interest in plans does not start and stop at the submission and assessment of written documents. To ensure the objectives of the NHS Finances (Wales) Act 2014 are met, the Welsh Government has aligned its monitoring, delivery, and escalation arrangements to track and challenge delivery against plan. How this has been achieved is set out in detail within the latest NHS Wales Planning Framework and includes:

- quality and delivery meetings structured around plans between the Welsh Government, Health Board and Trust Officials;
- Joint Executive Team Meetings, where the meeting's agenda is now entirely shaped around a consideration of performance against plan; and
- Chief Executive accountability arrangements.

The planning system has been designed to recognise the concept of earned or autonomy. If an organisation has an approved plan in place and a track record of delivery, it may benefit from a reduced frequency and intensity of the above performance management/accountability mechanisms.

## **6. Strengthening the planning system**

Whilst significant progress has been made, it is acknowledged through the issue of the latest planning framework that there is still work to do nationally and within local health boards and trusts to build upon the progress of the last two years. It should be recognised that moving from an annual planning cycle to the integrated medium

term planning arrangements has required a substantial shift in organisational planning systems, skills and behaviours. Work is in hand to further strengthen arrangements over the next twelve months, including: training and development for those involved in service planning; strengthening workforce planning; and practical action drive to embed the principles of prudent healthcare.

Taken together, however, the progress identified within this paper demonstrates how the Welsh Government is introducing the ongoing and necessary rigour in operating the arrangements set out in the NHS Wales Planning Framework and the NHS Finance (Wales) Act 2014.

By virtue of paragraph(s) vi of Standing Order 17.42

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## WALES AUDIT OFFICE

### Final Audit Findings Report

Year ended 31 March 2015

Presented to those charged with Governance  
By RSM UK Audit LLP

on 11 May 2015



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Our Report is prepared solely for the confidential use of Wales Audit Office and solely for the purpose of explaining the scope of the audit, our proposed audit approach, and to highlight the key risks that we will be focusing our audit work upon, forming part of the ongoing communications we are required to make under International Standard on Auditing (UK and Ireland) 260 – Communication of audit matters with those charged with governance. Therefore, the report may not, without our express written permission, be relied upon by Wales Audit Office for any other purpose whatsoever, be referred to in whole or in part in any other external document or made available (in whole or in part) or communicated to any other party. RSM UK Audit LLP neither owes nor accepts any duty to any other party who may receive our Report and specifically disclaims any liability for any loss, damage or expense of whatsoever nature, which is caused by their reliance on our Report.

# 1 INTRODUCTION AND COVERAGE

This report summarises our key findings in connection with the audit of the financial statements of Wales Audit Office in respect of the year ended 31 March 2015.

The scope of our work has already been communicated to you via our Audit Plan document dated 25 February 2015.

In addition to the scope of work already communicated to you we have also undertaken work, as required under Schedule 1 of the Public Audit (Wales) Act 2013, to obtain reasonable assurance that expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that money to which the statement relates, received by the WAO for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

A summary of adjusted and unadjusted misstatements identified during the audits has been prepared and is included in Section 5.

We consider that the audit approach adopted will provide the committee with the required confidence that a thorough and robust audit has been carried out and can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit report provided in the Audit Plan previously communicated to you.

## 2 QUALITATIVE ASPECTS OF EARNINGS

There were no significant one-off items that have affected reported results for the year:

### 3 AUDIT AND ACCOUNTING ISSUES IDENTIFIED AT PLANNING STAGE

#### Income recognition, WIP and deferred income

|                                |  |
|--------------------------------|--|
| <b>Key area of audit focus</b> | The recognition of income, WIP and deferred income is considered to be a high risk due to the level of judgement applied to the stage of completion of an audit assignment   |
| <b>Our approach</b>            | We will select a sample of projects that have commenced throughout the year and test the revenue recognised with reference to the stage of completion of the assignment in order to determine that the revenue recognition is appropriate and consequently whether the WIP and deferred income are appropriately stated. |
| <b>Response</b>                | Testing completed as planned. We identified some reclassification adjustments for firms WIP which have been adjusted in the financial statements.  |

#### Reputation

|                                |   |
|--------------------------------|---|
| <b>Key area of audit focus</b> | Due to public interest in the financial statements there is a desire to maintain reputation and demonstrate exemplary financial management. Accounting judgements may be influenced by the desire to demonstrate good financial management and remain within the Estimate |
| <b>Our approach</b>            | Review of judgemental aspects in year-end balances particularly focusing on any; <ul style="list-style-type: none"> <li>- Round sum provisions</li> <li>- Estimates</li> <li>- Recoverability of debtors</li> <li>- Disclosure of remuneration</li> </ul>                 |
| <b>Response</b>                | No significant issues note other than the trade receivable control point raised in section 7.   |

#### Regularity

|                                |  |
|--------------------------------|--|
| <b>Key area of audit focus</b> | This is the first year that the Office has operated under the new fees regime set out in the Public Audit (Wales) Act 2013. There is a risk that the new rules have not been complied with.                                    |
| <b>Our approach</b>            | Review processes the Office has introduced for compliance with the Act and that these are operational. Substantively test a judgemental sample of jobs to ensure that they have been validly charged at appropriate fee scales |

## Regularity

### Response

See section 5 for regularity issues noted during our regularity audit. None of these impacts on our regularity opinion.

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## 4 AUDIT AND ACCOUNTING ISSUES IDENTIFIED DURING THE AUDIT

### Overstatement of provisions

|                     |  |
|---------------------|--|
| <b>Our approach</b> | We noted as part of our provisions work that a voluntary exit payment which was provided for at year end was paid before year end and therefore the cost of the exit package was recorded twice. |
| <b>Response</b>     | An adjusting journal has been raised to reverse the provision.   |

### Fee Scheme

|                     |   |
|---------------------|---|
| <b>Our approach</b> | Historically the WAO have retained efficiency gains up to 10% on their audit work and repay gains in excess of this amount.<br>Under the new Act the Office should repay all gains to the audited bodies. Due to management oversight and the failure to translate the new legislation into policies and procedures the old efficiency gains approach had been applied. |
| <b>Response</b>     | An actual adjustment has been included to include a further creditor of c.£140k repayable to the audited bodies   |

### Revenue recognition

|                     |  |
|---------------------|--|
| <b>Our approach</b> | Currently the WAO recognise revenue according to stage completion of audits. This is based on the budgeted hours against actual hours. This ratio is then checked with the audit managers to confirm it is accurate. We noted that the actual hours on closed jobs was approximately 3% higher than budgeted hours.<br>If we assume a similar rate should be applied to open audits then the office has recognised too much revenue in year by approximately £206k. As the same would apply to the opening position – the actual impact in year would be £71k. |
| <b>Response</b>     | We have included this as a potential judgemental unadjusted item. We would recommend that the Office review their process for determining stage completion and have included a recommendation below.   |

## 5 REGULARITY ISSUES IDENTIFIED DURING THE AUDIT

### Policies

#### Our approach

The Financial Management handbook had not been fully updated to reflect the new legislation and refers to the Government of Wales Act 2006 rather than the Public Audit (Wales) Act 2013.

There is also no policy for preparation of the Annual Plan in line with the new legislation.

There is also no Treasury policy and one should be drafted which complies with the managing public money guidance issued by the Treasury.

The estimate policy should be updated to include the process for issuing a revised estimate including checking that the National Assembly has accepted the revisions.

All policies should have been fully updated and approved by the relevant committee to reflect the new legislation at the start of the year and these should always be updated in future in a timely manner.

#### Response

Although the internal controls to reflect the legislative changes of the new act were incomplete we did not identify any specific issues that may affect our regularity opinion.

### Employee members remuneration

#### Our approach

We noted as part of our review of members remuneration that the employee members are receiving a responsibility allowance for their duties with the board. The Public Audit (Wales) Act prohibits the payment of remuneration to these members. Management obtained external legal advice which concluded that the legislation is not sufficiently clear on the matter and so it was agreed that a general allowance of £3,573 per member could be paid.

#### Response

We have reviewed and assessed the legal advice provided on this issue and are satisfied that the advice provides a reasonable interpretation of the legislation.

## Gifts and hospitality policy

### Our approach

We noted as part of our review of the gifts and hospitality policy that alcoholic drink gifts are to be auctioned off with the proceeds going to a nominated charity. We identified two instances where this policy was not followed. The amounts involved totalled £24

### Response

Whilst the policy was not followed we note that the gifts had been appropriately declared by the individuals concerned and therefore we consider the impact to not be material and does not impact our opinion.

## 6 UNADJUSTED/ADJUSTED MISSTATEMENTS

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement. We have not disclosed below those items that we consider to be "clearly trivial" in the context of our audit. For this purpose we consider "clearly trivial" to be any matter less than £5,000 individually and £10,000 in aggregate.

We advised management of all these misstatements throughout the course of the audit and requested management to correct them.

| Wales Audit Office                   | Profit (£'000) | Net assets (£'000) |   |
|--------------------------------------|----------------|--------------------|---|
| Adjusted misstatements               | Dr/(Cr)        | Dr/(Cr)            |   |
| Accruals / trade payables            | -              | (193)              | Being cost accruals for firms included within WIP                                       |
| WIP                                  | -              | 193                |   |
| Deferred Income                      | -              | (93)               | Being accrued income included in deferred income for firms                              |
| WIP                                  | -              | 93                 |   |
| Deferred income                      | -              | 326                | Being the offset of firms balances within WIP and Deferred income                       |
| WIP                                  | -              | (326)              |   |
| Provisions                           | -              | 68                 | Being the adjustment to reclassify the contract penalty to other payables.              |
| Other payables                       | -              | (68)               |   |
| Provisions                           | -              | 39                 | Being the adjustment to reverse voluntary exit payments charged twice.                  |
| Staff costs                          | (39)           | -                  |   |
| Other creditors                      | -              | (140)              | Being the adjustment to efficiency gains  |
| Audit fee income                     | 140            | -                  |   |
| General funds                        | -              | 397                | Being the adjustment to the WCF creditor as a result of the adjustment to the SORO.     |
| WCF creditor                         | -              | (397)              |   |
| <b>Total</b>                         | <b>101</b>     | <b>(101)</b>       |   |
| Unadjusted misstatements Judgemental | Dr/(Cr)        | Dr/(Cr)            |   |
| Deferred income                      | -              | 71                 | Being judgemental in year impact on revenue of actual hours out-turn vs budgeted hours. |
| Revenue                              | (71)           | -                  |   |
| Operating expenditure                | 12             | -                  | Being the adjustment to provide for a significantly aged debtor balance.                |
| Trade debtors                        | -              | (12)               |   |
| <b>Underlying total</b>              | <b>42</b>      | <b>(42)</b>        |   |

## 7 DEFICIENCIES IN INTERNAL CONTROL

We have set out below deficiencies in internal control which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

### Trade Receivables

|  |  |
|--|--|
| <b>Fact and potential consequence</b>              | <p>It was noted that there was a significant level of trade receivables unpaid at year end and outside of the credit terms offered (c.£500k). Upon investigation, it was identified that the balance was larger than expected as the balances were not being as rigorously chased due to other priorities within the finance team.</p> <p>Whilst the Office do not expect these balances to become irrecoverable as they are all in respect of agreed fees and are due from public bodies, it is best practice to efficiently manage the cashflows of the Office and represents a potential reputational risk to the WAO if it is not seen to be operating strong internal controls.</p> |
| <b>Possible action</b>                             | Sufficient resources within the finance team should be allocated to the management of the debtor's ledger to ensure that all overdue debts are followed up accordingly.  |
| <b>Management response</b>                         | Accepted. A KPI has been set in the Annual Plan and progress against this target will be reported to the Board throughout the year.  |
| <b>Timing of implementation and responsibility</b> | Accepted. A KPI has been set in the Annual Plan and progress against this target will be reported to the Board throughout the year.  |

### Segregation of duties

|                                       |   |
|---------------------------------------|---|
| <b>Fact and potential consequence</b> | It is possible for someone to set up a supplier in COA (the finance system) and make a payment without any further authorisation. Three members of the finance team have no upper limit on the payments they can make. There is a risk that monies could be mis-appropriated. |
| <b>Possible action</b>                | We recommend that authorisation limits should be put in place and the facility to set up a supplier directly in COA should be removed.  |

## Segregation of duties

|  |   |
|--|---|
| <b>Management response</b>                         | This weakness is acknowledged and is associated with the fact that there is only a small finance team of 5 people and we need to ensure that cover is available to make payments when team members are on leave. Additional controls have now been implemented to ensure that no one person can generate and make payments. As these changes could be over-ridden by the system administrator who is part of the team, she has had her access to payments removed by having her access card securely stored by the Director of Finance. |
| <b>Timing of implementation and responsibility</b> | Changes have already been implemented – Finance Manager   |

## Journals

|  |  |
|--|--|
| <b>Fact and potential consequence</b>              | The manual file of journals and supporting evidence is subject to a review process. However it is possible to enter a journal directly onto the system and hence by-pass the review process. There is a risk that fraudulent entries could be processed. |
| <b>Possible action</b>                             | We recommend that there is a reconciliation process between the manual journals file and the system on at least a quarterly basis. We did not identify any unauthorised journal entries as part of our audit work.                                       |
| <b>Management response</b>                         | Agreed   |
| <b>Timing of implementation and responsibility</b> | Immediate – Finance Manager  |

## Revenue Recognition

|  |   |
|--|---|
| <b>Fact and potential consequence</b>              | As noted in Section 4 above, the current process for checking stage completion of audits does not identify small variations in actual hours versus budgeted hours. As a result the office is potentially recognising revenue early on audits.   |
| <b>Possible action</b>                             | We recommend that the process is reviewed and either a general provision against income included to reflect the average budget variance or a more detailed response from the audit managers is sought.  |
| <b>Management response</b>                         | Although we currently check work in progress accuracy with audit managers as part of our monthly and year end close down procedures, we agree that this may not identify small variations on individual audits. We are not however sufficiently convinced of the requirement for a more general provision; rather we will review our income recognition procedures in the new year with a view to addressing this |
| <b>Timing of implementation and responsibility</b> | 2015-16 financial year – Finance Manager  |

## 8 SIGNIFICANT ACCOUNTING POLICIES, DISCLOSURES AND ESTIMATES

### Accounting policies and estimates

#### Change in accounting estimate

We noted as part of our work on fixed assets that the change in accounting estimate for assets related to the Cathedral Road property from 10 year to the life of the lease was actioned during the year. We have recalculated the expected impact of this change and found no significant variances in the revised depreciation charge.

### Accounting disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the Companies Act 2006. The following disclosure matters were brought to your attention and subsequently reflected in the revised financial statements:

1. The draft financial statements omitted the noted change in accounting estimate for fixed assets relating to leased property.
2. As a result of an error in determining the cost of the voluntary exits for one employee this employee was misclassified in note 5 of the financial statements.
3. The draft financial statements omitted the accounting policy for segmental reporting.
4. In the prior year we noted that net balances were reflected in respect of work undertaken by external firms which should have been properly reflected as cost accruals and accrued income. In the current year the WAO have taken steps to separate these balances into their component parts. However where actual income and invoiced costs relate to the same project these should be offset to show the net project deferred or accrued income. These have been quantified and adjusted.

### Significant difficulties identified during the audit

No significant difficulties were encountered during the course of our audit work and we would like to take this opportunity to thank the finance team for their assistance during the audit.

## 9 UNCERTAINTIES, RISKS, EXPOSURES, JUDGEMENTAL ISSUES AND GOING CONCERN

There are no further matters that we wish to bring to the attention of the board.

## 10 FEES

We confirm that the fees charged during the year in respect of services performed for Wales Audit Office are consistent with those contained within our Audit Plan submitted to you and dated 25 February 2015.

## 11 INDEPENDENCE

In accordance with International Standard on Auditing (UK and Ireland) 260 "Communication with those charged with governance", there are no changes to the details of relationships between RSM UK Audit LLP and its related entities and Wales Audit Office and its related entities and directors that may reasonably be thought to bear on RSM UK Audit LLP's independence and the objectivity of the audit principal, Jenny Hill and the audit staff and the related safeguards from those disclosed in the Audit Plan dated 25 February 2015.

## APPENDIX A - DRAFT LETTER OF REPRESENTATION

RSM UK Audit LLP  
Davison House  
Forbury Square  
Reading  
Berkshire  
RG1 3EU

Dear Sirs

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

We confirm to the best of my knowledge and belief, and having made appropriate enquiries of other senior executives of the Wales Audit Office, the following representations given to you in connection with your audit of the financial statements for the period ended 31 March 2015.

The following representations reflect circumstances up to the date of this letter, on which the financial statements were approved, and management's knowledge and intentions regarding the future of the Wales Audit Office.

#### Responsibility for financial statements

We acknowledge our responsibilities under the Public Audit (Wales) Act 2013 and Treasury Directions made in accordance with that Act for maintaining adequate accounting records and for preparing financial statements in accordance with the applicable accounting framework that give a true and fair view and for making accurate representations to you.

We confirm that we have taken all the steps we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors were unaware.

#### Availability of information

All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records. All other records and related information have been made available to you, including the minutes of all committee meetings, which are a complete and authentic record of the proceedings at those meetings. I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

## Related party transactions

We have disclosed to you the identity of the related parties and all related party relationships and transactions of which I am aware. There were no transactions with the WCF and with the audited bodies other than those in the ordinary course of business (fees) requiring disclosure in the financial statements. There were no other transactions with related parties requiring disclosure during the year.

## Use of funds and regularity

- We acknowledge our responsibility, as specified by the Public Accounts Committee of the National Assembly under the Public Audit (Wales) Act 2013, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the National Assembly for Wales and that the financial transactions conform to the authorities which govern them.
- To the best of our knowledge and belief we confirm that, in all material respects, the expenditure disbursed and income received during the year ended 31 March 2015 have been applied to purposes intended by Parliament and the National Assembly for Wales and the financial transactions conform to the authorities which govern them.
- Neither the board nor the senior management team have knowingly authorised a course of action, the financial impact of which was that transactions infringe the requirements of regularity.
- All transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records.
- There were no events of which we are aware which involve suspected non-compliance with the framework of authorities which govern the running of the Office.

## Assets

### 1. General

All assets included in the Statement of Financial Position belong to the Wales Audit Office and except as disclosed in the accounts were free from any charge. All non-current assets belonging to the Wales Audit Office are included.

### 2. Impairment of non-current assets

Each non-current asset is worth to the Wales Audit Office at least the amount at which it is included in the Statement of Financial Position, either through continued use by the Wales Audit Office or through the opportunity for sale on the open market.

## Liabilities

### 1. General

All known liabilities of the Wales Audit Office at 31 March 2015 have been included in the balance sheet. All secured liabilities are disclosed.

### 2. Contingent liabilities

There were no contingent liabilities at the balance sheet date. All guarantees or warranties or other financial commitments have been fully disclosed in the financial statements. There were no known actual or possible litigation and claims whose effect should be considered when preparing the financial statements.

We confirm we have disclosed to you all banking and financing arrangements including related contracts and hedging products. We confirm that no tax avoidance schemes were used by the Wales Audit Office.

### **Accounting estimates**

We confirm that all significant assumptions used in making accounting estimates, including where applicable those measured at fair value, are reasonable in the circumstances, and appropriately reflect our intentions and our ability to carry out the specific courses of action necessary to justify the accounting estimates and disclosures. The disclosures in the financial statements relating to accounting estimates are complete and appropriate.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Commitments**

All commitments of the Wales Audit Office of a material amount, whether of a capital or revenue nature, have either been provided for or noted in the financial statements as appropriate. An adequate provision has been made for any losses, which may be expected to result there from, or from events which had occurred before 31 March 2015.

### **Remuneration report**

All amounts paid to members of the Wales Audit Office Management committee have been appropriately included in the Remuneration Report.

All items of personal expenditure paid by the Wales Audit Office on the Management committee's behalf have either been reimbursed by the individuals concerned or have been treated as benefits in kind.

The benefits in kind in respect of the PAYE settlement will be met by the Wales Audit Office. This has been fully disclosed in the remuneration report.

No member of the Management committee or their connected persons had any indebtedness (or agreement concerning indebtedness) to the Wales Audit Office at 31 March 2015 or at any time during the year.

### **Governance Statement**

We confirm the Governance Statement within the Annual Report fairly reflects the Wales Audit Office's current position in relation to our compliance with internal control requirements set out in HM Treasury's guidance.

### **Fraud and regulation**

We acknowledge that the responsibility for the detection of fraud, error and non-compliance with laws and regulations rests with me. We confirm that we are not aware of any known or suspected frauds, error and non-compliance, involving management, employees or third parties which may have a material effect on the financial statements. We confirm that, insofar as we are able to determine, in my opinion the financial statements are not materially misstated as a result of fraud.

In particular we confirm that the Wales Audit Office has made full disclosure of actual or suspected fraud brought to our attention by employees, former employees and other external parties.

We confirm that there has been no possible or actual instance of non-compliance with those laws and regulations which are central to the Wales Audit Office's ability to conduct its business, except as explained to you and as disclosed in the financial statements.

#### **Events subsequent to the date of the Statement on Financial Position**

There were no events, transactions or discoveries since the Statement of Financial Position date which:

- would have a material effect on the financial statements, or
- are of such importance to users of the financial statements that they should be disclosed in the financial statements.

Yours faithfully,

*Signed on behalf of the board of Wales Audit Office.*

Member

## APPENDIX B - UPDATED FINANCIAL REPORTING DEVELOPMENTS

### Amendments to the 2015-16 Financial Reporting Manual

Changes to the 2015-16 FReM fall into three main categories:

- Adoption of IFRS13 Fair Value for the first time – this also includes IAS 16 and IAS 38 adaptations,
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts in line with the Project and the Statement of Parliamentary Supply. Main changes include the introduction of three parts to the ARAs: the Performance Report, the Accountability Report and the Financial Statements; and
- Minor accounting updates – including introduction of two charity SORPs for relevant ALBs.

Following the FReM revision in line with the above, the illustrative statements have also been updated. The main changes are:

- Revised streamlined format of the Statement of Parliamentary Supply to be included within the Accountability Report;
- Removal of the requirement to produce SOPs Note 1 – Statement of accounting policies;
- Reduction of disclosure for SOPs Note 3 – An amendment to only include a reconciliation for resource outturn;
- SOPs Notes 4 and 5 may be published in an annex;
- Core primary financial statements to move to a two column format including core department & agencies and group;
- Accounting policies or disclosure notes only needed in relation to material items (although where wider commentary would be helpful to the user this may be included); and
- Redesigned “Remuneration and staff report” within the Accountability Report including relocating disclosures for average number of persons employed and related costs and exit packages from the notes to the financial statements. Entities may cross refer to disclosures within the notes to the financial statements.