

# RSM Tenon Audit



WALES **AUDIT** OFFICE  

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SWYDDFA **ARCHWILIO** CYMRU

Report to those charged with Governance  
for the year ended 31 March 2012

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Letter of Representation

This report is part of a continuing dialogue between the Wales Audit Office (WAO) and ourselves and is therefore not intended to cover every matter discussed during the course of the audit. For this reason, the report is intended for the sole use of the organisation. We do not accept responsibility to any person acting in an individual capacity, and do not accept responsibility for any reliance that third parties may place on the report.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the resource accounts as a whole. An audit does not examine every operating activity and accounting procedure in the WAO, nor does it provide a substitute for management's responsibility to maintain adequate controls over the WAO's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the WAO's systems and working practices, or of all improvements that could be made.

## 1 EXECUTIVE SUMMARY

### 1.1 PURPOSE

The purpose of this report is to record the overall results of our work and in accordance with ISA 260 to assist those charged with governance and internal management by commenting on those matters that came to our attention during the course of the audit. These matters cover:

- Independence
- Materiality and Audit approach
- Comments on the accounting policies and practices, which have been used to prepare the resource accounts
- Summary of adjusted and unadjusted errors in the financial statements
- Suggestions for improvement to the Wales Audit Office's (WAO) accounting and financial control systems

In future years we will include a follow up of prior year recommendations.

We would like to thank the finance team for all their assistance throughout the audit process.

### 1.2 INDEPENDENCE

In accordance with auditing standards we can confirm that any relationships that may bear on the firm's independence and the objectivity of the audit engagement director and audit staff were assessed and communicated at the planning stage of our audit.

### 1.3 AUDIT APPROACH AND MATERIALITY

Our planning materiality, which we discussed with the Audit and Risk Management Committee (ARMC), was calculated at £100,000.

This level was reviewed during the audit fieldwork and in the light of the revised operating result we propose increasing our adjusting materiality to 10% of the reported total comprehensive net expenditure excluding the exceptional VAT provision.

The proposed revised adjusting materiality is £235,000. We are required to report any potential adjustments identified during the course of our audit work, unless they are clearly trifling.

### 1.3 AUDIT APPROACH AND MATERIALITY (CONTINUED)

For the purposes of this report we have taken clearly trifling as being adjustments less than £10,000. A summary of our audit adjustments is included in Section 3.1 to this report. The potential adjustments identified which remained unadjusted are included in Section 3.2.

### 1.4 ACCOUNTING POLICIES AND PRACTICES

In preparing the resource accounts, the WAO opts to comply with the Financial Reporting Manual (FReM). The FReM is based on International Financial Reporting Standards and these have been adapted, interpreted or extended to meet the needs of public sector organisations.

The accounting policies are assessed on an annual basis to ensure they remain appropriate to the circumstances of the WAO and are being properly applied.

We have reviewed the accounting policies and practices within the WAO and, subject to the comments in Section 2 of this report, are satisfied that they have been suitably applied to the WAO's circumstances.

### 1.4 ACCOUNTING AND FINANCIAL CONTROL SYSTEMS

We have reviewed the reports produced by Internal Audit during the year and have placed reliance on the work of internal audit where appropriate.

In line with Auditing standards we have documented the key systems and controls and performed walkthrough testing to confirm operation of the controls. Section 4 of this report includes some detailed recommendations arising from our review further, together with management's responses to our recommendations for improvement.

### 1.5 MANAGEMENT REPRESENTATIONS

As part of the completion of our audit work we seek written assurances from the Accounting Officer on aspects of the accounts and in particular judgements and estimates made. The draft letter in accordance with the ISA is appended to this report.

## 1.6 AUDIT RISKS IDENTIFIED AT PLANNING

The following notes the outcome of our work on the audit risks communicated to you at planning.

<b>Issue</b>	<b>Audit risks</b>	<b>Outcome</b>
<p>Correct cost allocation between local authority activity and central government / NHS activity</p>	<p>The cost allocation is key to determining the budget and presenting the outturn position</p>	<p>In the draft cost allocation management had used the cash requirement as WCF income rather than the actual net resource bid.</p> <p>In addition the direct cost allocation in the draft cost allocation is only based on the chargeable time of the productive employees. As a result 50% of staff costs have been included as overhead expenses and allocated on an income basis. The direct costs have then been adjusted to take out training time which is borne by the WCF. As the direct costs only include chargeable time this is incorrect. We recommend that the direct costs are adjusted to include 90% of actual direct employment costs and 10% allocated to the WCF income stream (assuming 10% is an appropriate allocation to the general running of the office).</p> <p>Residual overheads have been allocated on a pro-rata basis based on turnover. However the overheads have first been allocated to the WCF income stream to bring the net position to nil on this income stream. From our review of the funding estimate and in particular the table on page 17, this implies that overheads should be met by fee income rather than the estimate.</p> <p>Based on the draft figures before provision adjustments, if the above areas are adjusted the net amount repayable to the fund is £1,859k against the WAO calculated amount of £1,868k. As by its nature this is an estimated amount we have not proposed an adjustment in this respect but recommend that the WAO review the basis for apportioning costs in future years.</p> <p>There are further improvements which could be made to the cost allocation in respect of identifying direct costs and these are detailed in Section 2.</p>
<p>Consistent and appropriate accounting policies in respect of income and WIP</p>	<p>There is a risk that WIP and the associated income / surplus position is not correctly stated</p>	<p>We identified some non-material adjustments to WIP and have included our extrapolated adjustment as a potential adjustment in Section 3 (£18k).</p> <p>We identified some areas where the income recognised was in excess of the budget fee. Management have informed us that these are in respect of over-runs which the clients are obligated to pay for. At the point of our audit these over-runs had not been invoiced and therefore we have included these as a specific representation.</p>

<p>Unrecorded liabilities and provisions</p>	<p>There is a risk that certain liabilities or provisions may be understated or incorrectly calculated</p>	<p>The holiday pay accrual had been overstated due to the inclusion of pension contributions. Per the CSPA rules payment in lieu of annual leave is not pensionable. The prior year impact of this adjustment was c.£116,000 and is therefore not considered to represent a fundamental error for prior year re-statement. The accounts have been adjusted in the current year to correct the closing accrual.</p> <p>The accounts include dilapidations provisions in respect of the leased premises. These have been based on the net present value of estimated final costs. The provision is then being spread over the period of the lease. We consider that some of the liabilities will not relate to general wear and tear but would relate to work undertaken when the premises were initially occupied.</p> <p>We do not have any figures to enable us to calculate the impact that this would have on the provision but have estimated that the provision could be understated by between £60k and £120k. This is not individually material to our audit opinion and has been considered as part of our overall assessment of adjustments and does not impact our audit opinion.</p> <p>Given the potential impact of this adjustment we have included a grade 1 recommendation for management to re-visit their estimation basis over the current year.</p>
<p>Calculation of the enhanced pension provision</p>	<p>There is a risk that the pension provision may be misstated</p>	<p>Some calculation errors have been made on the enhanced pension accrual in prior years which have been carried through into the current year resulting in an overstatement of the enhanced pension provision. This has been adjusted in the current year. The prior year impact of the overstatement has been estimated at £174k. Whilst significant this is not considered a fundamental error and therefore no prior year restatement has been proposed.</p>
<p>Completeness of the bad debt provision</p>	<p>The bad debt provision may be misstated</p>	<p>We had identified one debt which is outside of payment terms and where subsequently instalment payments have been missed. The latest instalment for this debt has recently been met and therefore no adjustment has been proposed for this amount as it is less than £10k.</p>

<p>Significant work has been performed in the year to quantify VAT and PAYE liabilities which may have arisen from historic liabilities</p>	<p>The VAT and PAYE provisions may be misstated</p>	<p>Provisions have been included and appropriately disclosed in line with the latest guidance from the external consultants.</p> <p>The total PAYE liability has been estimated at £213k and the VAT liability at £2,392k.</p> <p>The Office has not exceeded its supply estimate in the year or its cash estimate and therefore this does not impact our regularity opinion. The inclusion of the liability will result in the Office showing a deficit position on its statement of financial position. The National Assembly have been made aware through the annual estimate that an additional liability may arise but have not yet been asked for formal approval of the VAT payment.</p> <p>The WAO are confident that this amount will be approved and therefore are satisfied that it is appropriate to prepare the financial statements on a going concern basis. A specific representation confirming this has been included in the letter of representation.</p>
<p>Historically there have been errors in the method of accounting for public funding</p>	<p>The income and expenditure account may be misstated</p>	<p>No significant matters noted during the course of our work although we recommend that the office re-visit the methods of cost allocation.</p>
<p>This is our first year of appointment and we have not audited the opening balances</p>	<p>Opening balances may be misstated</p>	<p>During the course of our work we identified some adjustments to prior year figures which have been summarised in Section 3. These total £217k and are not considered fundamental errors and therefore no prior year restatement is required.</p>

## 2 ACCOUNTING POLICIES AND PRACTICES

### 2.1 INTRODUCTION

The following matters were discussed with management during the course of the audit.

### 2.2 FIXED ASSETS

Under IAS 16 any costs which can be considered directly attributable in bringing an asset to its present and working condition are eligible to be capitalised as part of the cost of the asset. This includes salary and other staff costs incurred as a direct result.

During the office move to the Cathedral Road a number of staff costs were capitalised (at £123k). Whilst a number of these costs were indeed eligible for capitalisation, we have identified approximately £67k which related to general internal costs of management planning meetings which cannot be considered directly attributable.

We have raised this as a potential adjustment in section 3.2 of this report. Whilst this is an historic error we do not consider it to be material to the accounts and have not proposed a prior period adjustment.

### 2.3 WORK IN PROGRESS AND DEFERRED INCOME ACCOUNTING

The accounting policies adopted by the WAO in relation to the recognition of audit fee income and the associated balances of work in progress and deferred income are consistent with those of 2010/11.

Fee income is recognised as project work is completed in order to reflect the expenditure incurred in reaching a certain stage of completion. This income is recognised irrespective of amounts invoiced to date, which are reflected in the period end balance of either work in progress or deferred income.

Nothing has come to our attention to indicate that the accounting policies have not been applied consistently in this regard, and we are satisfied that the approach is compatible under the provisions of the FReM.

As part of our testing we identified that 'efficiency gains' were being recognised on central government and NHS work. The Auditor General is permitted to retain any surplus arising from local government fees (other than grant certification work) but

is required to pay any surplus on central government or NHS work back into the Welsh Consolidated Fund. WAO Finance have taken advice from colleagues in the AGW Private Office and are satisfied that it is appropriate to retain these efficiency gains. See extract from advice below;

*"The requirement to only charge costs only applies to grant certification and certain request studies. (There is also a requirement not to charge more than full cost in respect of certain agreement and other request studies.). For the audit of accounts, outside local government, AGW "may charge a fee". There is no statutory restriction on the shape of that fee.*

*For local government, the fee is in accordance with the scale of fees set by the AGW. Again, there is no statutory restriction on the shape of the fee scales, other than the fees must be the same regardless of whether the audit is done by AGW staff or a firm. (There is also a requirement to consult on fee scales, and there is provision for WG to set scales in place of the AGW's. Both these features are aimed at preventing excessive fees, but they don't restrict fees to full cost.)"*

Currently the efficiency gains are modest and may represent 10% of the fees. On this basis we consider it appropriate to retain these gains. Should the efficiency gains significantly increase we recommend that the fee structure is reviewed to ensure that it remains appropriate.

### 2.4 AGW REMUNERATION

As in previous years the AGW salary has been disclosed in the remuneration report but has not been grossed up and included in the accounts. This approach differs from the approach recommended by the National Audit Office but as full disclosure has been made of remuneration we are satisfied that the approach adopted gives a true and fair view.

### 2.5 COST ALLOCATIONS

As noted above in the key risk section there are improvements which could be made to the current method of cost allocation. This is key in determining amounts to be repaid to the WCF. Currently only direct salary costs are allocated on the basis of chargeable time. There are other direct employment costs such as the car scheme (c.£600k) and travel and subsistence costs (c.£400k) which are not currently allocated directly to projects. We recommend that the WAO undertakes a review of its costs and identifies a mechanism for allocating all direct costs against jobs. This will give greater visibility over the actual underlying costs of performing audits.

### 3 ADJUSTED AND UNADJUSTED ERRORS

#### 3.1 ACTUAL AUDIT ADJUSTMENTS

The following adjustments were processed during the course of our audit:

	<i>Total</i>
	£'000
<b>Total comprehensive net expenditure for the year per draft accounts</b>	<b>(2,358)</b>
PAYE estimated liability	(213)
VAT provision	(2,392)
Holiday pay accrual	113
Enhanced pension adjustment	130
Release of bad debt provision	4
Capitalised staff costs	(40)
<b>Revised operating cost per resource accounts</b>	<b>(4,756)</b>
<b>Supply Estimate</b>	<b>4,853</b>



### 3.2 POTENTIAL AUDIT ADJUSTMENTS

The following potential adjustments were identified which were greater than clearly trifling. We have defined 'clearly trifling' as below £10,000.

	2012 £'000	2011 and prior £'000's
Incorrectly capitalised staff costs	-	(67)
WIP adjustments	(18)	-
Increase in bad debt provision	-	-
Remove pension from holiday pay accrual	-	116
Overstatement of enhanced pensions	-	168
Net VAT debtor (balance sheet only: c£13k)	-	-
<b>Net impact</b>	<b>(18)</b>	<b>217</b>

The 2011 and prior column quantifies the cumulative brought forward impact of the errors identified. This is below materiality and not fundamental to the true and fair view and no prior year adjustment is proposed.

## 4 ACCOUNTING AND FINANCIAL CONTROL SYSTEMS

### 4.1 INTRODUCTION

The action plan below summarises our recommendations for improving the effectiveness of the WAO's accounting and financial control systems:

	Subject	Grade
1	Authorisation of expense claims	1
2	Amendments to standing data	1
3	Authorisation of credit notes	1
4	Re-invoicing of trade debtors	2
5	Dilapidations provision	1
6	Confirmation of goods / service received	3
7	Work in progress	3

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

- Grade 1:** We believe these observations are particularly significant and that management should take action within the agreed timescales.
- Grade 2:** These observations are significant but of a lower priority than Grade 1 observations. We believe that action needs to be taken over the course of the next 12 months.
- Grade 3:** Observations that merit attention but are less significant than Grade 1 and 2 observations.

4.2 ISSUES NOTED

<b>1</b>	<b>Authorisation of expense claims</b>	<b>Grade: 1</b>
<p><b>Issue</b></p> <p>WAO operates a self-certification policy regarding staff expense claims. The WAO expenses claims in the year total in excess of £400k and best practice is for all claims to be authorised by a line manager. During the course of our work we did not identify any material over-claims however there is a risk of errors not being identified and also a reputational risk to the WAO.</p>		
<p><b>Recommendation</b></p> <p>We recommend that the WAO implements a policy of hierarchical expenses authorisation whereby staff expenses are secondarily authorised by a more senior employee (such as an audit manager) prior to being processed.</p>	<p><b>Management response</b></p> <p>Agreed. The recent review of travel and subsistence expenses has highlighted a need to introduce an improved expenses system which includes a facility for line manager authorisation. This system is unlikely to be in place before the end of this financial year. In the meantime, we will consider ways in which we can build checks into the current system.</p>	<p><b>Action by whom</b></p> <p><i>Group Director Resources</i></p> <p><b>Deadline</b></p> <p><i>New system to be in place by 31 March 2013. Current system to be amended by 30 September 2012.</i></p>

<b>2</b>	<b>Amendments to standing data</b>	<b>Grade: 1</b>
<p><b>Issue</b></p> <p>During our consideration of the WAO's systems of internal control, we identified that the payroll clerk is able to amend standing data (e.g. bank account details) which would not then be picked up on the payroll exception reports that are run. Without proper authorisation controls there is a risk that changes to standing data could be made and salary diverted. We did not identify any impropriety during our audit work.</p>		
<p><b>Recommendation</b></p> <p>We recommend that the exception reports are updated such that changes in standing data (e.g. bank account details, addresses, employee names etc.) are flagged each month for investigation.</p>	<p><b>Management response</b></p> <p>Agreed. An evaluation of our current HR/Payroll system by an independent consultant has also highlighted a risk relating to the ability of the payroll officer and other system administrators being able to change standing data. We will ensure that this risk is addressed as part of the procurement and implementation of any new system. In the meantime we will ensure that exception reports are produced monthly and checks are undertaken to ensure the appropriateness of any changes to standing data.</p>	<p><b>Action by whom</b></p> <p><i>Group Director Resources until appointment of Finance Manager who will then take on responsibility</i></p> <p><b>Deadline</b></p> <p><i>Immediate</i></p>

<b>3</b>	<b>Authorisation of credit notes</b>	<b>Grade: 1</b>
<p><b>Issue</b></p> <p>During our consideration of the WAO's systems of internal control, we identified that there is no formal process by which credit notes are authorised. Either of the sales ledger employees could raise a credit note, potentially incorrectly, without this being picked up. Credit note authorisation is considered a key sales ledger control to prevent fraud or error.</p>		
<p><b>Recommendation</b></p> <p>We recommend that a process is put in place whereby the finance manager performs a review of all credit notes posted at the end of each month. This would allow for potentially abnormal credit notes to be investigated in a timely manner.</p>	<p><b>Management response</b></p> <p>Agreed. Checks will be performed monthly</p>	<p><b>Action by whom</b></p> <p><i>Group Director Resources until appointment of Finance Manager who will then take on responsibility</i></p> <p><b>Deadline</b></p> <p><i>Immediate</i></p>

4	Re-invoicing of trade debtors		Grade: 2						
<p><b>Issue</b></p> <p>During our consideration of trade debtors we identified an instance whereby an overdue debt had been credited and then re-invoiced in 3 separate instalments. This had the effect of re-aging the debtor which was subsequently not provided for in the bad and doubtful debts provision.</p>									
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;"><b>Recommendation</b></th> <th style="width: 33%;"><b>Management response</b></th> <th style="width: 34%;"><b>Action by whom</b></th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> <p>We recommend that any instalment plans should be expressly agreed with both the project and finance managers and then tracked separately to ensure that the reporting of the aging profile of trade debtors is not compromised.</p> </td> <td style="vertical-align: top;"> <p><i>Agreed. We will ensure that debts are only reprofiled following agreement by the relevant project manager and tracked separately by Finance.</i></p> </td> <td style="vertical-align: top;"> <p><i>Group Director Resources until appointment of Finance Manager who will then take on responsibility</i></p> <p><b>Deadline</b></p> <p><i>Immediate</i></p> </td> </tr> </tbody> </table>				<b>Recommendation</b>	<b>Management response</b>	<b>Action by whom</b>	<p>We recommend that any instalment plans should be expressly agreed with both the project and finance managers and then tracked separately to ensure that the reporting of the aging profile of trade debtors is not compromised.</p>	<p><i>Agreed. We will ensure that debts are only reprofiled following agreement by the relevant project manager and tracked separately by Finance.</i></p>	<p><i>Group Director Resources until appointment of Finance Manager who will then take on responsibility</i></p> <p><b>Deadline</b></p> <p><i>Immediate</i></p>
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5	Dilapidations provision	Grade: 1	
<p><b>Issue</b></p> <p>The management team are building up a dilapidations provision on a uniform basis across the period of each lease respectively. This provision however covers contractually obligated discounted cost estimates for both structural works (the cost of which should be recognised in full, up front) and more general remedial works (which can legitimately be spread over the period of the lease).</p>			
<p><b>Recommendation</b></p> <p>We recommend that management estimate the proportion of the costs attributable between structural and remedial works to ensure the provision is as accurate as possible going forward.</p>		<p><b>Management response</b></p> <p>Agreed.</p>	<p><b>Action by whom</b></p> <p>Group Director Resources</p> <p><b>Deadline</b></p> <p>31 October 2012</p>

<b>6</b>	<b>Confirmation of goods / services received</b>		<b>Grade: 3</b>						
<p><b>Issue</b></p> <p>From our consideration of the purchasing control system we identified that, where a purchase invoice is received which agrees exactly to a purchase order, no authorisation is sought from the purchaser that the goods have been received. We note that this has not given rise to any cut off errors highlighted by our work. We also note that this has previously been raised by Internal audit as part of their work and that management are satisfied that the current process is appropriate to the nature of their business and the type of goods and services received. However we have raised the point again as a matter of best practice.</p>									
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<b>7</b>	<b>Work in progress</b>	<b>Grade: 3</b>
<p><b>Issue</b></p> <p>During our consideration of work in progress we identified one job where the costs were expected to exceed the fee quoted by £10k. No provision had been made for this foreseen loss. We also identified one instance where the job had been shown as started and income recognised to reflect expected efficiency gains. The work did not start until after the year end.</p> <p>Whilst these appeared to be isolated incidents there is a risk that WIP and revenue could be mis-stated if WIP is not correctly accounted for.</p>		
<p><b>Recommendation</b></p> <p>We recommend that guidance is issued to audit managers at the year end highlighting the common potential issues with year end WIP and confirmation sought from audit managers that these issues have been fully considered in their assessment of the</p>	<p><b>Management response</b></p> <p>Agreed. We will ensure that guidance is issued to audit managers in advance of next year's accounts closedown process.</p>	<p><b>Action by whom</b></p> <p><i>Finance Manager</i></p> <p><b>Deadline</b></p> <p><i>31 March 2013</i></p>

## APPENDICES

Dear Sirs

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

The Auditor General for Wales is a Corporation sole and references to the Wales Audit Office are to be read as references to the Auditor General for Wales.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other senior executives of the Wales Audit Office, that the following representations given to you in connection with your audit of the financial statements for the period ended 31 March 2012 are correct.

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

I acknowledge as Auditor General my responsibilities under the Government of Wales Act 2006 for preparing financial statements that give a true and fair view and for making accurate representations to you.

### 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.

### Related party transactions

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.

### Use of funds

- I acknowledge my responsibility, under the requirements of the Government of Wales Act 2006, for ensuring that expenditure disbursed and income received is applied for the purposes intended by the Wales Assembly for Wales and the financial transactions conform to the authorities which govern them.
- To the best of my knowledge and belief I confirm that, in all material respects, the expenditure disbursed and income received during the year ended 31 March 2012 have been applied to purposes intended by the Wales Assembly for Wales and the financial transactions conform to the authorities which govern them.
- Specifically I confirm that it is appropriate for the Office to take efficiency gains on fee paying work.

### 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.

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## **Liabilities**

### **1. General**

All known liabilities of the Wales Audit Office at 31 March 2012 have been included in the balance sheet. All secured liabilities are disclosed.

### **2. Contingent liabilities**

The Wales Audit Office had a contingent liability at 31 March 2012 in respect of PAYE on travel and subsistence for geographically based audit staff. This has been fully disclosed in the financial statements. There were no other contingent liabilities at the balance sheet date.

## **Accounting estimates**

We confirm that all significant assumptions used by us 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 related to accounting estimates are complete and appropriate.

## **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 2012.

## **Remuneration report**

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

All items of personal expenditure paid by the Wales Audit Office on the Executive 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 Executive committee or their connected persons had any indebtedness (or agreement concerning indebtedness) to the Wales Audit Office at 31 March 2012 or at any time during the year

## **Governance Statement**

I 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**

I acknowledge that the responsibility for the detection of fraud, error and non-compliance with laws and regulations rests with me. I confirm that I am 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. I confirm that, insofar as I am able to determine, in my opinion the financial statements are not materially misstated as a result of fraud.

In particular I 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.

I 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.

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**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.

**Going Concern**

I have reviewed likely future developments and there is no reason to believe that the Wales Audit Office will have to cease activities within the foreseeable future as a result of inadequate financial resources or any other foreseeable event within a period of at least 12 months from the date the financial statements are approved. The National Assembly of Wales have been made aware of the potential VAT claim for a number of years and are expecting the WAO to ask for supplementary funding to meet this liability. I confirm that I have no reason to believe that this funding will not be forthcoming.

**Potential Audit adjustments**

I confirm that I have considered the adjustments, advised to me by you in your management letter (list of adjustments attached to this letter). I confirm that we have considered the adjustments and agreed that the cost of processing the non-material adjustments outweighs any benefit to the users of the accounts.

**Journal entries**

I confirm that there were actual journal entries processed as a result of your audit to incorporate the adjustments you identified during the audit.

Yours faithfully,

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**Auditor General for Wales**