



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

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Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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Dear Darren

AUDITOR GENERAL'S 2011-12 ANNUAL REPORT AND ACCOUNTS

At its meeting on 2 October 2012 to consider my Annual Report and Accounts for 2011-12, the Public Accounts Committee asked me to provide before Christmas an update on:

- improvements in our financial management procedures;
- improvements in our procurement arrangements; and
- our negotiations with HMRC on VAT and other tax liabilities.

I have provided in Appendix 1 a brief update on developments, which I hope you find helpful.

Please do not hesitate to contact me if you or other members of the Committee have any queries or require any additional information.

Yours sincerely

HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

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Improvements in our financial management procedures

I am pleased to confirm that since October we have continued to improve our financial management and financial reporting procedures, and have been assisted in this by the advice we have received from our non-executives. Areas of focus have included better profiling of our budgeted income and the development of new report formats to provide clearer and more focused reporting for executive and non-executive committees.

The guidance and procedures set out in our new Financial Management Handbook are being reinforced by specific training events to be held in the New Year targeted at our approximately 70 budget holders and project managers in the New Year.

Improvements in our procurement arrangements

We have strengthened our procurement arrangements across the WAO, including:

- revised reporting mechanisms to identify emerging potential problem areas that might risk breaching WAO internal and EU procurement processes in sufficient time to take necessary remedial action; and
- new controls, approval mechanisms and reporting arrangements where single tender actions are judged necessary.

As with financial management detailed training is to be provided to budget holders in the New Year on these new arrangements.

Our negotiations with HMRC - VAT

I have very recently received a ruling from HMRC that I should stop charging VAT on supplies made to local government bodies. That ruling however did not cover a number of critical points, notably:

- the date from which I should stop charging VAT on supplies to local government bodies;
- whether I should continue to charge VAT on supplies to NHS bodies and, if so, the effective date of the proposed change; and
- whether HMRC intended to raise an assessment for any historical liabilities (PAC members will recall that I had included a provision of £2.4 million in my 2011-12 accounts to cover this potential liability).

I have been advised by HMRC that I can expect a further ruling on these outstanding points very shortly.

Our negotiations with HMRC - Employment taxes

My staff have provided to HMRC detailed analyses and reports regarding the areas of concern that we had identified in the 2011-12 accounts. I hope to receive an indication from HMRC early in the New Year of its likely stance on these particular issues.

I am pleased however that we now seem to be making progress with HMRC in resolving a number of long standing tax issues, though we have not yet reached the point of final settlement. I would suggest therefore that I write to you by 31 March 2013 to provide a further update