

Wales Audit Office

Audit findings report
year ended 31 March 2022

7 June 2022



Contents

Executive Summary	3
Risks identified at the planning stage.....	4
Matters identified during the audit	6
Other matters to be reported	7
Update on matters communicated at the planning stage	8
Appendix	9

Executive Summary

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 2022.

The scope of our work was communicated to you via our Audit Plan document. We believe that the audit approach adopted will provide the Audit and Risk Assurance Committee with the required confidence that a thorough and robust audit has been carried out. Our audit work is substantially complete, and we anticipate issuing an unmodified audit opinion on the group's financial statements in line with the agreed timetable.

Final materiality

Materiality was confirmed at £439,000, using total expenditure incurred as the benchmark. Our materiality figure represents an effective rate of 2.0% of expenditure.

Unadjusted audit misstatements

One misstatement was identified during our audit however this related to a classification difference within payables. Further detail is included within the Appendix of this report.

Risks identified at the planning stage

Risk	Description	Response	Findings
Revenue recognition - WIP and deferred income	Revenue is a presumed risk under the International Standards on Auditing. The recognition of income, WIP and deferred income is considered to be a significant risk due to the level of judgement applied to the stage of completion of an audit assignment and any provisions required.	<p>We will:</p> <ol style="list-style-type: none"> 1. 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 to determine that the revenue recognition is appropriate and, consequently, whether the WIP and deferred income are appropriately stated. 2. Review correspondence with audit managers and discuss any relevant matters directly with the engagement manager. We will do this to establish the estimated costs to complete and any required provisions at the year end, considering the impact of any time spent after the year end on these estimations. 3. Review assessments made in the prior financial period and compare the final total costs to the assessment made at year end, to assess the accuracy of the estimations made in the prior period. 4. Evaluate projects that are reasonably expected to be concluded at a deficit and confirm that an appropriate provision has been recorded in the financial statements. 	<p>Our work indicated that the organisation has appropriate systems and controls for assessing the stage of completion of its ongoing contracts, and hence for determining the amount of revenue that should be reported at the year end. We have followed up on our sample of engagements selected during the 2021 audit. We have noted differences between the 2021-year end cost to complete assessment and the final costs incurred. However, these differences were highly immaterial and supportive of the overall assessment taken at year end.</p> <p>We have compared the stage of completion based on costs completed to the stage of completion based on hours posted. There were only trivial errors noted which is expected given staff mix varies by engagement.</p> <p>We reviewed April 2022 audit assessments to confirm that there was no material indicators of a provision being required at year end.</p> <p>We have tested the reliability of the underlying time recording system and did not note any errors in our sample testing with the completeness or accuracy of the data.</p> <p>Where deficits are expected on audits, we have noted no errors on the calculation of such provisions.</p>

Management override of internal controls	The risk exists that the internal controls within the group could be overridden by management, resulting in transactions or judgements arising which have not received appropriate approval or consideration, and for significant transactions outside the normal course of business to distort the reported results.	<p>We will:</p> <ol style="list-style-type: none"> 1. Review controls over journal entries and, using data analytic software and based on our risk assessment, test a sample of journals to ensure they are valid and appropriately supported. 2. Obtain an understanding of the business rationale of significant transactions that we become aware of during the audit process that appear to be outside of the normal course of business or that appear to be unusual, given our understanding of the entity's operating environment. 3. Consider estimates and judgements made by management in the preparation of the statutory accounts and conclude on their appropriateness. 	<p>We have tested journal entries posted during the year on a sample basis, using risk analysis and data analytics to identify 'at-risk' transactions. This did not highlight any erroneous entries, or any items indicative of undue management bias.</p> <p>We have reviewed the significant estimates adopted in the preparation of the financial statements, such as those relating to provisions. We have not identified any areas where there appears to be indication of management bias.</p>
Reputational risk	Given the public interest in the financial statements, there is a risk that accounting judgements may be influenced by the desire to demonstrate good financial management and remain within the Estimate.	<p>We will:</p> <ol style="list-style-type: none"> 1. Undertake internal specialist technical reviews of both the accounts and also our audit work, including regularity, given the increased reputational risk associated with the audit. 2. Review the judgemental aspects of year-end balances, particularly focusing on any round sum provisions, estimates, recoverability of debtors, disclosure of remuneration, and related party transactions. 	<p>During the course of our audit, we have not noted any areas of inappropriate activity, or areas where the Office has been acting inappropriately.</p> <p>Our internal technical reviews have been completed and subsequent conclusions are reflected in this report. Our regularity opinion is unmodified.</p>

Matters identified during the audit

Issue

Response

Quorate of board meetings

The Public Audit (Wales) Act 2013 states that in order for the board meeting to meet the Quorum requirement, the majority of members present at Board meetings must be non-executive directors (Schedule 1, part 7, section 28). During our regularity audit, we noted that at the October 2021 board meeting, one non-executive member was absent. In order to be quorate, employee board members recused themselves from any decisions on the Travel and Subsistence review, however they were still physically present during board discussions, leaving the meeting only for the decision and voting.

We also noted that another non-executive member was absent from the board meeting on 16 March 2022. Therefore, Kevin Thomas attended the session in his capacity as EDCS to ensure the meeting was quorate.

The Board's terms of reference make provision for a quorum to be met in accordance with the legislation. A pre-meeting check is made for expected member attendance to establish whether the meeting is expected to be quorate. If this is not the case, arrangements are made for an employee board member to step down from that meeting as a Board member and attend in an executive/observer capacity only, which happened during October 2021 as noted opposite.

Previous legal advice on similar matters concluded that the requirement per the Act is for the majority of non-executive members to be "Present" rather than "present and voting". The advice recommended that moving forward, the Wales Audit Office updates its procedures to ask one or more employee members not to attend each meeting if needed, to ensure that there is a majority of non-executive members present. However, given employee board members were still physically present during the discussions, there is a risk that any decisions may be invalidated by the presence of employee members (although they did leave the meeting for the decision and voting).

We recommend that in such instances, the relevant persons are not present where relevant. But this does not impact our regularity opinion.

Classification of travel allowance provision

A £1.086m provision has been made in the financial statements relating to compensation owed to employees for the removal of their contractual entitlement to a Travel Allowance. The amount was agreed with employees following a consultation and paid via payroll in April 2022.

Under IAS 37, a provision represents a liability of uncertain timing or amount. However both the timing and amount of the Travel Allowance settlement was known as at 31 March 2022.

We have discussed the classification of this matter with management. There is a small variable element of the settlement which was not agreed as at 31 March 2022. Disclosure as a provision also allows additional narrative explanation as to what the amount represents and was therefore considered best practice to disclose as a provision and provide narrative detail for the £1.086m. As a material amount, given there is sufficient disclosure of the amount in the financial statements (specifically regarding timing and amount), we concur with the recognition and disclosure basis.

Other matters to be reported

Management judgements and accounting estimates

The following areas are considered to be the principal accounting estimates. The graphic below visually represents the impact (lower or higher) on the financial statements of a change in management's estimate. In overview, a reasonably possible change in estimate that has a low impact means that such a change will have limited impact on the financial statements. Conversely a reasonably possible change that has a higher impact, means that such a change can have a significant impact.

Estimates	Low impact	Medium impact	High impact
Provision for bad debts	●		
Revenue recognition – stage of completion			●
Dilapidations provision		●	
Depreciation and amortisation	●		

As part of our audit, we review the significant accounting estimates contained within the financial statements of the WAO. We note the following:

Costs to complete/work in progress

Our work indicates that the historical estimates of costs to complete are materially accurate, and that estimates made by the Resource Managers are an appropriate basis to determine percentage completion.

Dilapidations provision

These continue to be derived using latest available third-party surveyor reports, and there is no evidence that these are not an appropriate source of evidence to derive such provisions. Previous surveyor reports provided have not identified any significant issues that would necessitate a material increase in the value of the reported provision.

Receivable provision

Wales Audit Office has recognised a receivable provision of £33k in the current period, which is an immaterial amount and specific to one engagement. Therefore, no disclosure is made in the financial statements section "Key areas of estimate and judgement". The financial statements also consider the impact of IFRS 9 but conclude that any expected credit loss model is not relevant for the above-mentioned reasons.

Fixed asset depreciation/amortisation

Each asset has a Useful Economic Life over which it is depreciated/amortised. These policies are disclosed in the financial statements as expected.

Going concern

The financial statements are prepared on a going concern basis. The accounting policies contain adequate consideration of the reasons behind this; specifically, that Wales Audit Office works to annual funding arrangements by statute, and those resources are made available by the Senedd for the exercise of the Auditor General's functions. We have considered the 2022-23 Estimate and any matters identified during the course of our audit which may impact the going concern assessment. No material uncertainty has been identified.

Recommendation on controls

We have identified no matters regarding internal controls which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all internal control matters 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.

Representations requested

In addition to those representation which we request on all audit assignments (<http://www.rsmuk.com/standard-representations>) we will be seeking no specific representations from the Board.

Update on matters communicated at the planning stage

Matter communicated**Update**

Fees

We confirm that the fees charged during the year in respect of services performed are consistent with those contained within our Audit Plan submitted to you.

Independence

In accordance with International Standard on Auditing (UK) 260 “Communication with those charged with governance”, there are no changes to the details of relationships between RSM UK Audit LLP including its related entities and persons in a position to influence the conduct or outcome of the audit and Wales Audit Office and its connected parties that may reasonably be thought to bear on our independence, integrity and objectivity and the related safeguards from those disclosed in the Audit Plan.

This report has been prepared for the sole use of Wales Audit Office and must not be disclosed to any third party, or quoted or referred to, without our written consent. No responsibility is assumed to any other person in respect of this report.



Accounting misstatements

A summary of the unadjusted misstatements identified during the course of our work is set out below, analysed between misstatements 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 £22,000.

Adjustment	Type	Classification	Account	Value £'000	Description
1	Unadjusted	Reclassification	Accruals	71	Reclassification of supplier invoices received pre year end but recognised within accruals
			Trade payables	(71)	

Communication of audit matters to those charged with governance

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing, materiality and expected general content of communications including significant risks and key audit matters	●	
Confirmation of independence and objectivity	●	●
Significant matters in relation to going concern (if any)		●
Views about significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures (if any)		●
Significant findings from the audit		●
Significant matters and issues arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit (if any)		●
Unadjusted accounting misstatements and material financial statement disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter (if any)		●

ISA (UK) 260, as well as other ISAs (UK), prescribes matters which we are required to communicate with those charged with governance, and which we set out in the table here.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while the Audit Findings presents key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Financial statement 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 FReM 2021-22.

The following disclosure matters were brought to your attention and subsequently adjusted/not adjusted in the revised financial statements.

Unadjusted disclosures

Potential reclassification of provision into accruals (see other matters section)

Financial reporting updates

Important updates

A full list of financial reporting updates can be found by clicking the link below:



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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.

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