

3 July 2024

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Audit findings report

Issued to Wales Audit Office – year ended 31 March 2024

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Executive summary

Status and overview of the audit

This report summarises our key audit findings in connection with the audit of the financial statements of Wales Audit Office for the year ended 31 March 2024.

The scope of our work was communicated to you via our Audit Plan document dated 28 February 2024. There have been no significant changes to our planned approach.

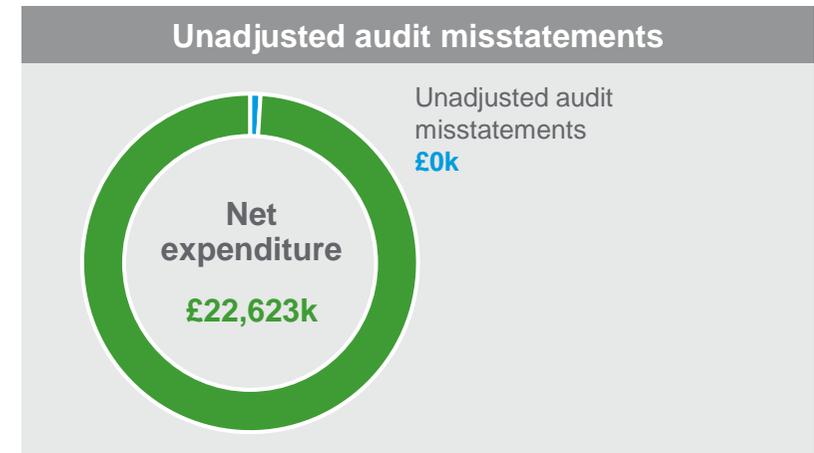
Adjusted misstatements

A list of the adjusted misstatements is included in the Appendix. The largest misstatements related to:

- Reclassification of the Capital Quarter rent free period accrual against the lease liability
- Adjustment to the split between short term and long term lease liabilities

Final materiality

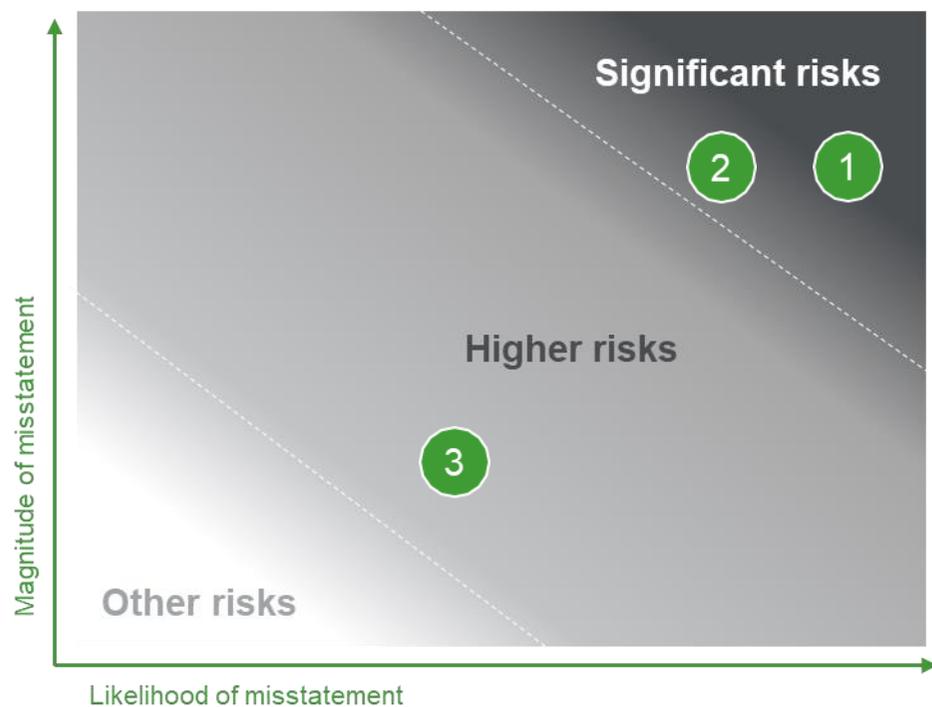
Materiality has not changed since we presented our audit plan.



Risk findings

(See Appendix for risk description and planned work)

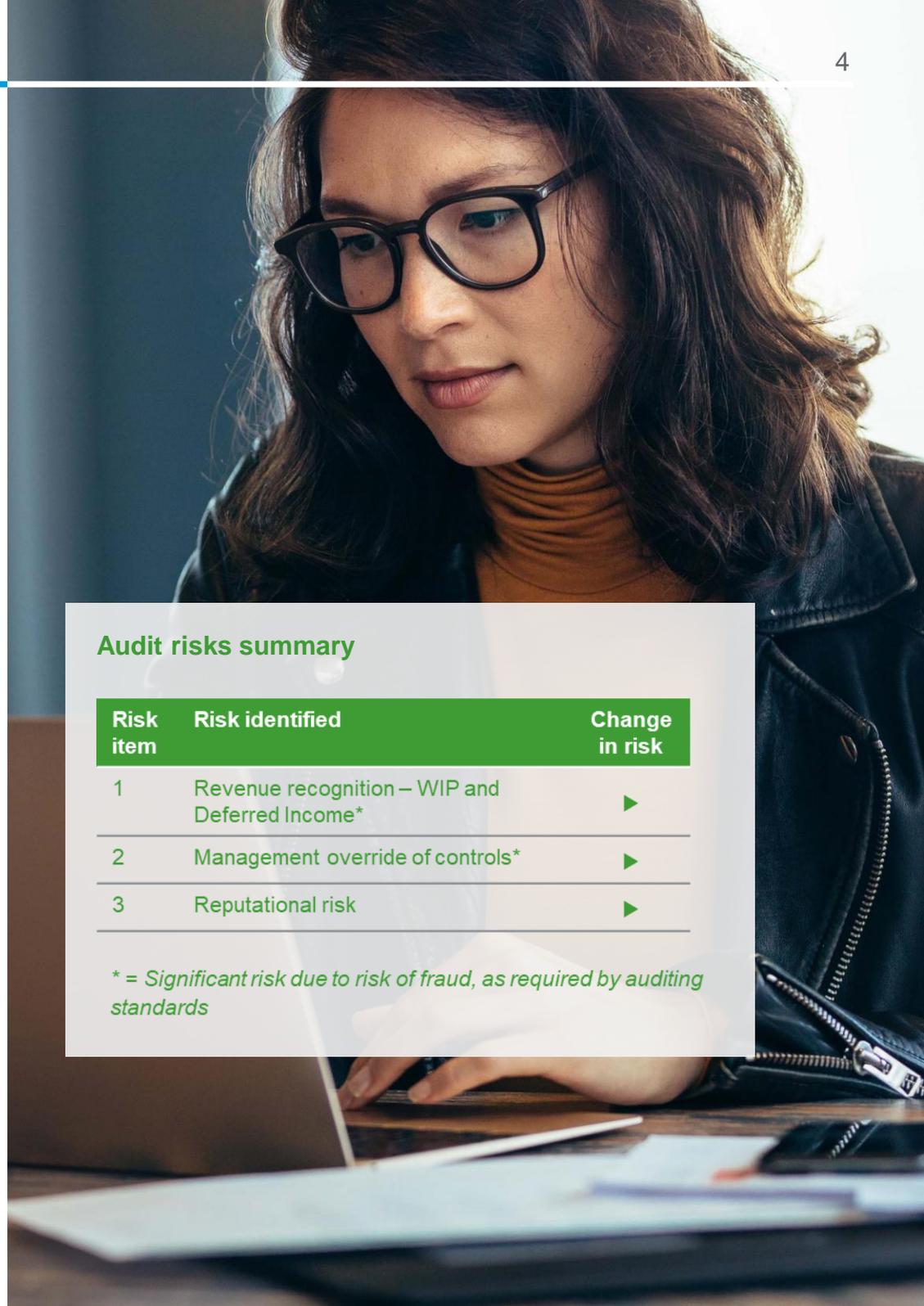
We have set out below details of those areas that we considered to be the key risks arising when we presented our audit plan. There have been no changes to the risks identified.



Audit risks summary

Risk item	Risk identified	Change in risk
1	Revenue recognition – WIP and Deferred Income*	▶
2	Management override of controls*	▶
3	Reputational risk	▶

* = Significant risk due to risk of fraud, as required by auditing standards



Audit risks

Significant risks

Risk	Findings
Revenue recognition – WIP and deferred income	<p>We have sampled and tested projects that commenced during the year and agreed that the revenue recognition is materially in line with IFRS 15 and IAS 37 and that appropriate amounts have been recognised in WIP and Deferred Income.</p> <p>We have reviewed management’s assessment of costs to complete. The basis of this calculation has changed in the year and while we were expecting the assessment to be based on future costs in HubPlanner, management have deemed that this information is not sufficiently accurate and therefore a historical basis has been used. The assessment was instead based on the prior year recovery of the equivalent audit with the average of 3 scenarios taken. These were taking the actual % bust in the prior year, capping this at 10% or 20%. While we would have expected management to select one scenario they think is the most likely, using the average is not materially different to having a cap at 10% or having no cap. Capped at 10%, the “Costs to Complete” (CTC) provision would be £863k; with no cap it would be £1,417k and averaged across the 3 scenarios is £1,118k. The cost to complete assessment is an estimate and given the lack of accurate forward looking data, calculating the cost to complete based on a range of historical based scenarios is a materially appropriate basis for estimate. A control point has been raised in this regard within this report.</p> <p>We reviewed April 2024 audit assessments to confirm that there was no material indicators of a further provision being required at year end. 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 not noted errors around the calculation of expected provisions.</p>
Management override of internal controls	<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>

Higher risks

Risk	Findings
Reputational risk	<p>Internal specialist technical reviews were undertaken to review the audit work carried out in key audit areas Revenue, Journals and Regularity.</p> <p>Our findings on Revenue and Journals have been covered above. Separate consideration has been included later in this report with regards to our Regularity Opinion. No other significant findings were noted from these additional reviews providing assurance that robust audit work has been performed which minimises the reputational risk.</p>

Qualitative aspects of accounting

Management judgements and accounting estimates

The following areas are considered to be the principal management judgements and 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.

Areas of judgement / estimate	Low 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 Wales Audit Office. 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 are an appropriate basis to determine any provision required for forecast losses.

Dilapidations provision

Dilapidation provisions are derived from the costs incurred to fit out a new office and/or based on the actual cost of dilapidations at offices which have been vacated. We have compared the dilapidations provisions at year end to the dilapidation paid in FY24 for Abergele and Cathedral road and the provisions appear reasonable based on the actual dilapidations paid.

Receivable provision

Wales Audit Office has recognised a receivable provision of £143k in the current period, which is an immaterial amount. 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 WAO have not used the expected credit losses model due to the immateriality of the provision and fact that virtually all customers are government departments or other public bodies which are funded in the main by Parliament. We recommend that an IFRS 9 compliant model is prepared by management.

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.



Regularity Audit

Based on our current findings we plan to issue a clean opinion in relation to regularity, however, we have identified a number of matters we wish to bring to your attention:

Matters identified during audit

Recommendations and response

Policies

We noted that the Board Travel & Subsistence Policy, dated April 2015 was due for review in August 2021, but has not been updated.

The Gifts, Hospitality & Entertainment Policy was also issued in February 2019 and due for review in February 2021 but has not yet been updated.

Creditors not paid within 30 days

Public sector organisations are required to pay supplier invoices within 30 days of receipt. The year-end creditors listing contained 27 items that were older than 30 days.

Procurement authorisation

A new contract was entered in the year for "Crowdstrike anti virus solution" with a value of £140,000 therefore requiring ELT approval. While we were able to see evidence of the tenders received there was no evidence available to show this contract had been approved by ELT.

Recommendations

We would recommend that the policies are reviewed and updated if required, and we believe this is currently being actioned. Based on the results of our testing, it appears that the current policies are being applied as expected. We are not aware of any substantial matters which would indicate the policy requires specific changes.

Management response

The Board Secretary is reviewing the Board's Travel and Subsistence Policy and its Gifts, Hospitality & Entertainment Policy to update these and align them to wider corporate policies, though substantive changes are not expected. The updated policies will be presented to the Board for approval during the 2024-25 business cycle.

Recommendations

While our financial statement and regularity opinions are unaffected by these items, we would recommend that transactions are reviewed each month end to ensure each creditor is less than 30 days old.

Management response

We will continue to regularly review aged creditor invoices to identify any that have not been approved for payment within our 10 day target. We will then follow up with the budget holder to determine the reason for non-approval. We have weekly payment runs to ensure that creditors are paid quickly once invoices are approved.

Recommendations

We recommend that the evidence approvals/authorisations is readily saved and available, with all other documentation for the same contract.

Management response

This Crowdstrike contract was not new for 2023/24, but was entered into in 2020/21, taking the form of a 1 year minimum term plus a series of optional annual renewals. We have amended the Financial Management Handbook (FMH) to clarify ambiguity over the contract value that should be considered to determine the type of approval needed. This is because this form of contract, with a short minimum term but with optional renewals making it several times longer, has become commonplace in IT contracting. The FMH now makes clear that the maximum contract value based on all optional renewals being taken must be used when considering approval. ELT considered and approved the Crowdstrike contract on this basis on June 5th and endorsed an amendment to the FMH on June 19th. As recommended we will ensure budget holders in future save evidence of approvals alongside evidence of competitions where these are required.

Regularity Audit (Continued)

Matters identified during audit	Recommendations and response
<p>Chair disqualification</p> <p>The Chair was disqualified as a board member in the year, following appointment of an additional position as a non-executive member for the secretary of state for Wales. The Senedd consider this as a crown appointment. If the disqualification was effective in January then there is a risk that, absent any specific legal advice on the matter, the quorum for board meetings will not have been met in the February and March 24 board meetings, as there would not have been a majority of non-executive board members.</p>	<p>Management response</p> <p>Advice from our external legal advisers and Counsel provided on 22 and 25 April 2024 (following earlier emergency advice on 26 and 31 March 2024) was that the Chair was not disqualified. Accordingly, the Chair's presence counted towards the quorum, and the meetings were therefore not inquorate. We also obtained advice on 22 April 2024 that set out that even if the Chair were disqualified, the savings provision at paragraph 31 of Schedule 1 to the Public Audit (Wales) Act 2013 would apply. That paragraph provides that "The validity of anything done by the WAO (including anything done by its non-executive members, the employee members, any committee or sub-committee and by any employee of the WAO) is not affected by— (a) a vacancy, or (b) a defective appointment.") The advice confirmed that that the WAO did not need to take any remedial action in relation to acts during the period and that the acts of the WAO in the period were not open to legal challenge.</p>
<p>Contract Register Completeness</p> <p>From our review of Purchase invoices over £5k we noted that there were a number of suppliers for which contracts should've been entered into Contracts Register but hadn't been.</p>	<p>Recommendations</p> <p>We recommend that management undertake regular reviews of large purchases and perform checks of significant suppliers against the Contracts Register to ensure its completeness.</p> <p>Management response</p> <p>Agreed in principle, however the FMH does not detail a threshold value that transactions/contracts should be included in the Contracts Register, and the treatment of the invoices highlighted complies with our FMH. We have now amended the Financial Management Handbook (FMH) to stipulate that transactions/contracts with a value of >£10k should be included in the Contracts Register. This threshold level will help us to monitor if the FMH procurement procedures are being followed and the necessary contract award approvals are being obtained. Having a lower threshold like £5k would lead to the risk of detracting from the contracts register's effectiveness on focussing on high value/risk contracts and it could start to resemble a general creditor listing.</p>

Regularity Audit (Continued)

Matters identified during audit

Gifts & Hospitality approval

From our review of gifts and hospitality declared in the year we noted one occasion where hospitality had been provided by WAO to an employee. As it was the Auditor General wishing to provide hospitality a short business case to the Chair of the Board is required under the 'Gifts, Hospitality & Entertainment Policy' to obtain permission – in this case no written permission could be obtained.

Synectics Contract

We noted during our procurement testing that the GP data matching pilot contract only had one quotation obtained, despite the value of the contract meaning that three bids were needed at a minimum. Management explained that this is not a single tender action as the pilot is conducted within another NFI contract, that went through a competitive tendering process and was awarded to Synectics by the cabinet office. Thus, to operate within this space, WAO must use Synectics. Although this is a slightly unique case, following policy would mean that single tender approval would need to be sought from the ELT, as it still falls within the prescribed competition thresholds.

Recommendations and response

Recommendations

We recommend that the policy is followed, and all gifts and hospitality receive the relevant approval.

Management response

Agreed – a business case was prepared to provide an evening meal for 6 guest speakers as well as 2 members of Audit Wales staff the evening before the Audit Wales Quality Symposium. This was approved by the Auditor General, but we will ensure that Chair's permission is also obtained in future.

Recommendations

We recommend that controls are put in place to ensure that the appropriate tender policy is followed for all contracts entered into with suppliers.

Management response

Agreed – the recent contracts review reported to ELT, as highlighted above, did not identify this contract and as already stated by the auditors, this is a unique case and the work with Synectics has been masked by the close association with the NFI contract; Synectics are the contractor behind the Cabinet Office contract. We don't believe that changes to the FMH are necessary in this case, as it is clear on STA requirements, but the planned Procurement/Contract Approval awareness training (which will be targeted at directors and heads of service) and closer monitoring of contract cumulative expenditure will improve our controls further and avoid a recurrence of these issues moving forward.

Recommendations on controls

We have set out below recommendations on 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.

Control observation	Recommendations and response
<p>Cost to Complete Assessment</p> <p>During our testing on cost to complete it was found that managers were not adequately posting future costs to engagements, meaning future data could not be used for the costs to complete provision at year end.</p>	<p>Recommendations</p> <p>We recommend that management challenge future cost postings more robustly to allow future costs (a more accurate basis) to be used for the cost to complete provision</p> <p>Management response</p> <p>We had planned to use the future demand data held within Hub Planner to calculate this provision but at year end this data was incomplete and hence a decision was taken to calculate an estimate based on prior years performance. It should be noted that neither calculation would be 'correct' as they are both predicated on unknown factors. From 2024-25 we do however plan to use the Hub Planner data as use of the system matures - using this data will also provide more robust planned v actual comparisons to inform future calculations.</p>

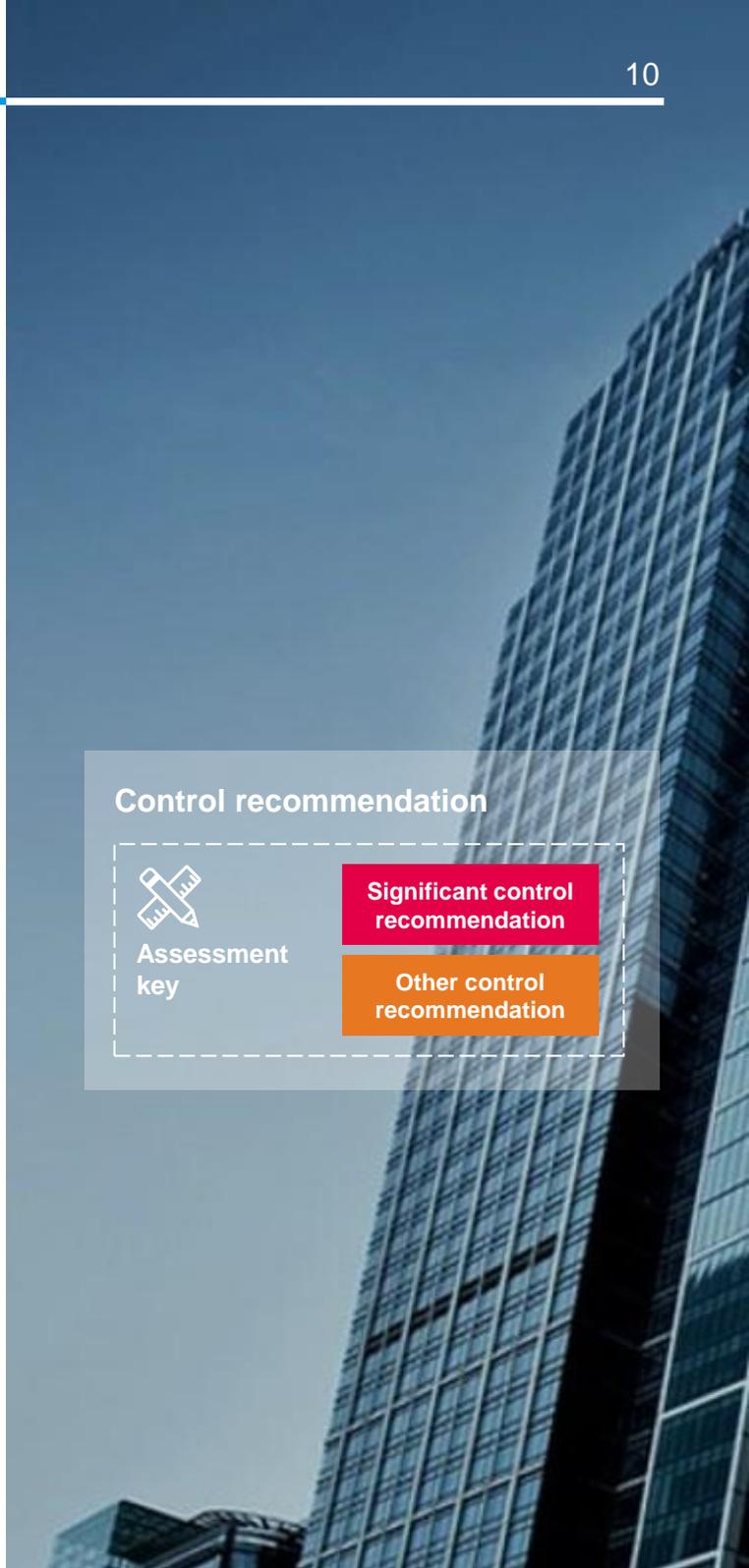
Control recommendation



Assessment key

Significant control recommendation

Other control recommendation



Appendix



Summary of adjusted misstatements

A summary of the adjusted misstatements identified during the course of our work is set out below

Factual misstatements

Account	Profit & loss (£'000)	Balance sheet (£'000)	Description
Dr Deferred Income		211	Reclassify rent free period (Capital Quarter Lease) accrual within deferred income to increase the lease liability at the year end
Cr Lease Liability (long term)		(211)	
Dr Lease Liability (short term)		64	Correct split between ST and LT lease liabilities
Cr Lease Liability (long term)		(64)	
Total	-	-	

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 Government Financial Reporting Manual (FReM) 2023-24. Updates were made to financial statements note 12 (Leases); specifically:

- Correct the amount recognised within the SOCI note as depreciation charged on RoU assets (£179k), which did not agree to the charge for the year per the PPE note (£244k).
- 'The reference to an adjustment for rent free periods within Note 12 of the draft accounts was incorrect and the descriptive paragraph has been updated.'
- Additional disclosure table has been added to Note 12 to reconcile opening and closing balances of liabilities arising from financing activities (IAS 7).

5.4.4j of the FReM states that “entities should detail performance against any further key financial indicators or measures, tying this into the broader discussion”. Financial KPIs are stated in the performance overview, rather than also being brought into the broader discussion; however given KPI's are included in the report this is not considered a material discrepancy.

The financial statements consider the impact of IFRS 9, but Wales Audit Office have not calculated expected credit losses as required by the FReM and IFRS 9. An IFRS 9 compliant model has not been used as management have concluded that any expected credit losses would be immaterial, given that virtually all customers are government departments or other public funded bodies meaning that the credit risk is low.

In other areas, evidence of compliance with the FReM has been cross-referred to other sections in the report to avoid duplication. We would recommend a review of the layout of the report to ensure that all specific requirements are evidenced in the expected sub-sections.

Management response

In response to the point raised around section 5.4.4.j of the FReM, as part of our broader work in 2024-25 on improving the quality and accessibility of our internal performance reporting, we will also give consideration as to whether performance against any further financial indicators or measures would merit inclusion in the Annual Report & Accounts 2024-25 performance analysis.

In response to the point raised around compliance with the FReM, the current general template for the layout of the Performance Report section of the Annual Report & Accounts has been in use since 2015-16, so a review of the template prior to preparation of the 2024-25 document would be timely. The current ordering of material in the template particularly aims to meet 2.6.13 of the FReM which states 'entities should aim to present the annual report as a cohesive document and link related information together. Where information relevant in one part of the annual report and accounts is included elsewhere in the annual report and accounts, entities should use cross-referencing and avoid duplicating information.' We will be keen to continue to apply this FReM principle when undertaking the review, while ensuring we continue to meet specific requirements for specific sections.

Other matters to be reported

Representations requested

In addition to those representation which we request on all audit assignments (<http://www.rsmuk.com/standard-representations>) we will not be seeking any specific representations from the Board.

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 2024-25 Estimate and any matters identified during the course of our audit which may impact the going concern assessment. No material uncertainty has been identified.

Independence

In accordance with the 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.

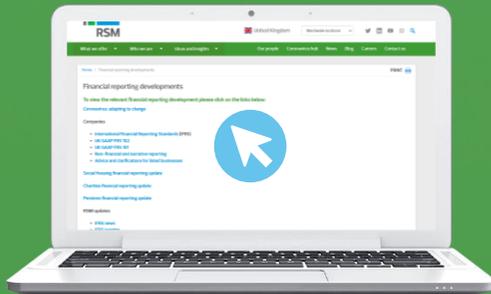


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Financial reporting updates

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Audit risk summary

taken from the audit plan



Audit risk summary

Risk	Description	Response
Revenue recognition – WIP and deferred income	<p>Under the International Standards on Auditing, revenue is a presumed fraud risk. The recognition of income, WIP and deferred income is considered to be a significant risk due to the level of judgement involved in determining the stage of completion of an audit assignment and any provisions required.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 appropriate • Review correspondence with audit managers and discuss any relevant matters directly with the engagement manager. We will use this to establish the estimated costs to complete and any provisions required at year end, considering the impact of any time spent on the audit after the year end on these estimations • Review assessments made in the prior financial period and compare the final total costs to the assessment made at year end, to assess the historical accuracy of estimates made in relation to revenue. • 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.
Management override of internal controls	<p>In any organisation, there will be an extent to which management can bypass internal controls. By definition, there can be no controls in place over this risk. This is specifically stated in International Standards on Auditing (ISA 240).</p> <p>Therefore, there is a risk that internal controls within the entity 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>	<p>We will:</p> <ul style="list-style-type: none"> • Review controls in place over journal entries and using data analytics software and based on our risk assessment, test a sample of general ledger entries to ensure they are valid and appropriately supported. • Obtain an understanding of the business rationale of significant transactions that we become aware of during the audit process which appear to be outside of the normal course of business or appear to be unusual given our understanding of the entity's operating environment. • Consider estimates and judgements made by management in the preparation of the financial statements and conclude on their appropriateness

Audit risk summary (continued)

Risk	Description	Response
Reputational risk	Given the public interest in the financial statements, there is a risk that accounting judgements may be influenced by a desire to demonstrate good financial management and remain within the Estimate.	We will: <ul style="list-style-type: none">• Undertake internal specialist technical reviews of both the financial statements and our audit work, including regularity, given the increased reputational risk associated with the audit.• Review the judgemental aspects of the year-end balances, with particular focus on any round sum provisions, estimates, recoverability of debtors, disclosure of remuneration, and related party transactions.

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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 and timing of the audit, and to highlight the significant risks and other audit areas that we will be focusing our audit work upon. This forms part of the ongoing communications we are required to make under the International Standard on Auditing (UK) 260 – Communication with those charged with governance.

For the avoidance of doubt, the auditor is not required to design audit procedures for the specific purpose of identifying matters of governance interest, nor does the audit relieve management or those charged with governance of their responsibilities. Throughout this document the terms partner and principal are interchangeable.

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