

# Audit findings report

Issued to:

Wales Audit Office

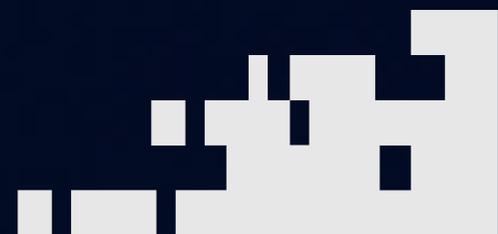
Year ended 31 March 2025

25 June 2025



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# Executive summary

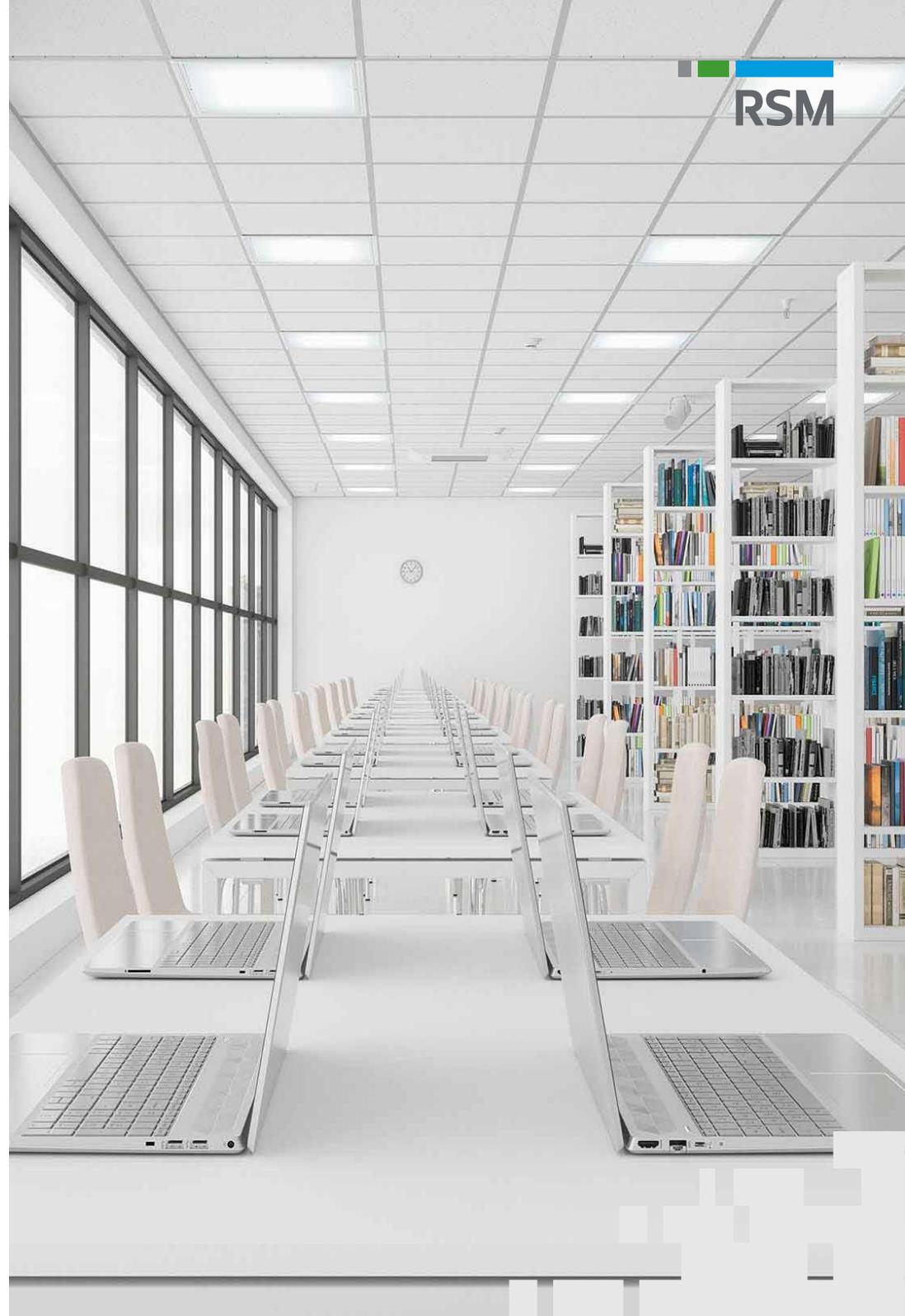
## Status and overview of the audit

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 2025.

The scope of our work was communicated to you via our Audit Plan document dated 28 February 2025. There have been no significant changes to our planned approach.

## Final materiality

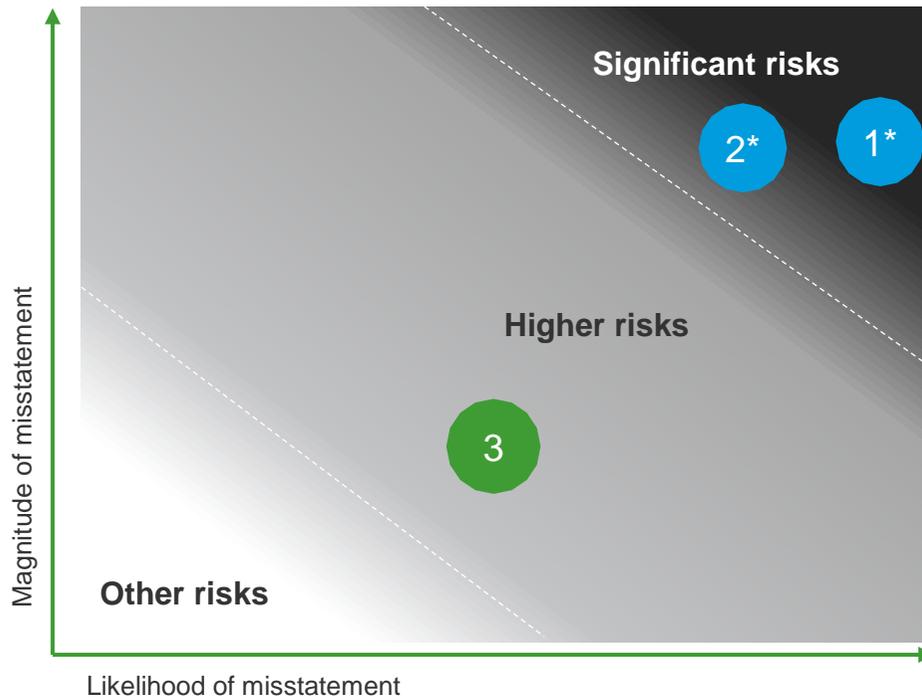
Materiality has not changed since we presented our audit plan.



# Key audit 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 audit risks arising when we presented our audit plan. There have been no changes to the risks identified.



\* = ISA 240 'The auditor's responsibilities relating to Fraud in an audit of financial statements' identifies that there is a presumed fraud risk in relation to revenue recognition and management override of controls. As a result, these have been classified as significant risks.

## Audit risks summary

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

## Significant risks

Risks	Findings
<p>Revenue recognition – WIP and deferred income</p>	<p>We have sampled and tested projects that commenced were ongoing at the year end and agreed that the revenue recognition is materially in line with IFRS 15 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 remained in line with the prior year and while we were expecting the assessment to change this year to be based on future costs in HubPlanner, management have deemed that this information does not go sufficiently far into the future and therefore a historical basis has continued been used. In line with the prior year the assessment was 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 £625k; with no cap it would be £1,088k and averaged across the 3 scenarios is £846k. The cost to complete assessment is an estimate and given the lack of sufficient forward looking data, calculating the cost to complete based on a range of historical based scenarios is a materially appropriate basis for estimate.</p> <p>We reviewed April 2025 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>
<p>Management override of internal controls</p>	<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 management bias.</p> <p>We did note that in the move to a cloud-based SUN accounting system, the system had on one occasion picked up the wrong user as the poster of journals. This is an issue of which management are aware and was due to a journal being posted manually, rather than via an upload. We reviewed the authorisation for this posting and confirmed it had been correctly uploaded by one user and approved by a different user as expected.</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
<p>Regularity</p>	<p>We have undertaken procedures on areas that we consider represent greater risk, by virtue of their nature, of impropriety of financial transactions.</p> <p>Please see our detailed findings on the following pages.</p>

Matters identified during audit	Recommendations and response
<p><b>Policies</b> We noted that the Organisation Workforce Design Policy was due for review in 2022 but has not been updated.</p>	<p><b>Recommendations</b> We would recommend that the policies are reviewed and updated if required. 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.</p> <p><b>Management response</b> The Organisation Workforce Design Policy is fit for purpose and will require just one update relating to pay protection. The TUs have had to ballot on the changes and there has been a delay to the ballot process because of capacity issues with the TUs. As such the policy has not been able to be updated. The ballot is due to take place in July 2025 and the policy will be updated with the outcome.</p>
<p><b>Creditors not paid within 30 days</b> Public sector organisations are required to pay supplier invoices within 30 days of receipt. The year-end creditors listing contained 13 items that were older than 30 days.</p>	<p><b>Recommendations</b> 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.</p> <p><b>Management response</b> Any late creditor payments will be as a result of there not being an approved purchase order in place or budget holder approval not being received. 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 have been approved.</p>
<p><b>Gifts and Hospitality - Declaration Forms</b> It has been noted from our testing that there are instances where the gifts and hospitality declaration form is not being utilised, and rather an email is being sent to Donna in the legal and ethics team.</p>	<p><b>Recommendations</b> It would be recommended that the declaration form is utilised in all situations, as this will ensure that the required information as set out in the policy is all obtained and documented, as by use of an email, there is the chance that required details are missed, thus breaching policy.</p> <p><b>Management response</b> The use of a declaration form is not required by our policy and so is optional as it would be overly bureaucratic to require it to be used in all circumstances. The Law &amp; Ethics Specialist responsible for maintaining the register does however check that all of the required information is provided before the register is updated. We do not therefore plan to make the declaration form compulsory.</p>

# Regularity Audit (Continued)

## Matters identified during audit

### Chair disqualification

The Chair was disqualified as a board member in the 2024, 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 24 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 April 24 board meeting (within the FY25 financial year), as there would not have been a majority of non-executive board members.

## Recommendations and response

### Management response

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.

## Recommendations on controls

No recommendations on internal controls have come 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.

# 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 / costs to complete		■
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. As noted in the table above this is the estimate / judgment with the highest potential impact on the accounts. Please see 'Revenue recognition – WIP and deferred income' in the Risks section of this report which contains further detail on this area.

### 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.

### 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.



Appendix

# Summary of unadjusted 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 no unadjusted misstatements greater than our trivial threshold (£26,600) to report.

# 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) 2024-25. Some minor updates were made to financial statements as a result of our review.

We have noted no unadjusted disclosure misstatements.

# 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 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 2025-26 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

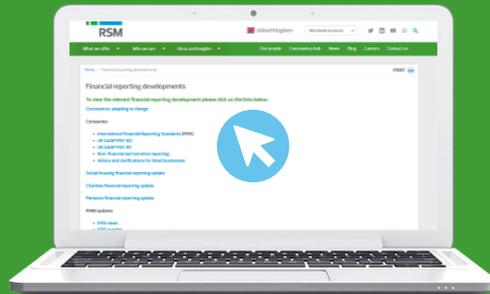
In accordance with the International Standard on Auditing (UK) 260 “communication with those charged with governance”, there are no changes to the details of relationships between RSM UK Audit LLP including its related entities and persons in a position to influence the conduct or outcome of the audit 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.

# Financial reporting updates

## Financial reporting updates

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

[Please click here](#)



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Keep up to date on the latest news and legislation changes by signing up to receive our alerts and newsletter.

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Audit risk summary  
taken from the audit plan

# Audit risk summary

Risk	Description	Response
<b>Revenue recognition – WIP and deferred income</b>	<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. This year, for the first time, the future data within Hubplanner will be used in the cost to complete exercise at year end to identify any “bust” jobs which require a provision at year end.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▪ 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 whether the revenue recognition is appropriate and, consequently, whether the WIP and deferred income are appropriately stated.</li> <li>▪ 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.</li> <li>▪ 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.</li> <li>▪ Evaluate projects that are reasonably expected to be concluded at a deficit and determine whether an appropriate provision has been recorded in the financial statements.</li> </ul>
<b>Management override of internal controls</b>	<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 (UK) 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"> <li>▪ 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 determine whether they are valid and appropriately supported.</li> <li>▪ 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.</li> <li>▪ Consider estimates and judgements made by management in the preparation of the financial statements and conclude on their appropriateness.</li> </ul>
<b>Regularity</b>	<p>A statement on regularity must be included in the annual report in accordance with Schedule 1 of the Public Audit (Wales) Act 2013.</p> <p>We are required to report on whether 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 Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▪ Obtain an understanding of Schedule 1 of the Public Audit (Wales) Act 2013 and how WAO has translated this into controls, policies and procedures. We will assess the nature, design and effectiveness of this and based on our assessment of risks of material irregularities and noncompliance will undertake testing of controls and detailed testing of financial transactions</li> <li>▪ Undertake procedures on areas that we consider represent greater risk, by virtue of their nature, of impropriety of financial transactions.</li> <li>▪ Plan our work in order to ensure that we derive such evidence as appropriate to support the regularity conclusion from planned financial statement procedures, as well as having regard to propriety of transactions.</li> </ul>

**RSM UK Audit LLP**

2nd Floor  
1 The Square  
Temple Quay  
Bristol  
BS1 6DG  
United Kingdom  
T +44 (0)117 945 2000  
[rsmuk.com](http://rsmuk.com)

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