

Finance Committee
FIN(4)-20-13 (paper 2)
13 November 2013

RSM Tenon Audit



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Report to those charged with Governance
for the year ended 31 March 2013

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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
- 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 partner and audit staff were assessed and communicated at the planning stage of our audit.

1.3 AUDIT APPROACH AND MATERIALITY

Our materiality, which we discussed with the Audit Committee, was calculated at £450,000.

For the purposes of this report we have taken clearly trifling as being adjustments less than £13,500. 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 (FRoM). The FRoM 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, 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. We have not included any additional non standard representations in the letter.

1.6 AUDIT RISKS IDENTIFIED AT PLANNING

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

Issue	Audit risks	Outcome
Correct cost allocation between local authority activity and central government / NHS activity	The cost allocation is key to determining the budget and presenting the outturn position	<p>The cost allocation method the WAO have used is consistent between their estimate and the final accounts. As the method is used in calculating the estimate and therefore forms the basis for fee setting for the year we consider it is appropriate to use the same method in the final accounts.</p> <p>The WAO method of cost allocation is to always bring the WCF and VFM work to a break-even position. The rest of the costs are then allocated across central government, local government and NHS work. As noted in prior years this method of allocation could be improved as assuming a breakeven cost position for VFM and WCF work may not be the most appropriate method.</p> <p>We have considered a number of alternate scenarios and no material difference arose in the amounts due back to the fund. As this is a judgemental area and the WAO has been consistent in its application of cost allocation we have not proposed an adjustment.</p> <p>We recommend that management review the basis of the cost allocation to ensure they are satisfied that the most appropriate method is being used.</p>
Consistent and appropriate accounting policies in respect of income and WIP	There is a risk that WIP and the associated income / surplus position is not correctly stated	Our review of work in progress and income recognition highlighted no material issues in the current year.
Unrecorded accruals	There is a risk that certain liabilities may be understated or incorrectly calculated	<p>The holiday pay accrual correctly excludes the impact of pension contributions in the current year, in line with CSPS rules.</p> <p>The employees under the voluntary severance programme were notified of their severance before the year end. On this basis it is appropriate to accrue for the costs.</p>
Calculation of the enhanced pension provision	There is a risk that the pension provision may be misstated	The enhanced pension provision is accurate in all material respects. No significant issues were highlighted in the current year.
VAT and PAYE provisions	The VAT and PAYE provisions may be	The VAT provision relating to historical liabilities has been released in full in the current

	<p>misstated</p>	<p>year, in line with the latest correspondence with HMRC who have indicated that they will not pursue historical liabilities arising from the VAT status issue.</p> <p>A new provision of approximately £30k has been recognised in the year relating to potential issues regarding the tax treatment of the Employee Assistance Program (EAP).</p> <p>The PAYE provision remains consistent with the prior year save for a c£90k payment on account that was made following the advice of Grant Thornton, the WAO's tax advisors. From review of the latest correspondence with HMRC we are satisfied that the provision continues to be valid and accurately recognised.</p>
<p>Dilapidations provision</p>	<p>The dilapidations provision may be misstated</p>	<p>The dilapidations provision has been increased significantly in the year following a valuation report provided by Jones Lang-Lasalle, which estimated the dilapidations cost at cessation of the lease.</p> <p>We have reviewed the report along with correspondence with Jones Lang-Lasalle and confirm the provision to be accurate in all material respects.</p> <p>We have raised a recommendation in respect of the WAO's legal obligations for dilapidations at the end of the lease as there may be opportunities to mitigate the cost.</p>

2 ACCOUNTING POLICIES AND PRACTICES

2.1 INTRODUCTION

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

2.2 DILAPIDATIONS

Under IAS 16 the cost of a fixed asset can include an estimate of the costs of dismantling and removing the asset, and restoring the site on which it is located.

In light of this a report was produced in the year by Jones Lang-Lasalle providing an estimate of the expected costs of restoring the Cathedral Road premises to its original condition, as specified in the lease agreement. This has resulted in the capitalising of circa £465k of dilapidations expense in the year.

Currently the asset is being depreciated over a useful life of 10 years, in line with the fixtures and fittings asset class. The asset life is 4 years shorter than the lease term and we recommend that management review the appropriateness of the useful life of these assets in line with their intentions. If the intention is to replace all partitioning after 10 years with 4 years left to run on the lease then the life is appropriate. If replacement at this stage is unlikely then consideration should be given to extending the life of the assets to the end of the current lease term.

If the asset lives were extended to match the term of the lease then the depreciation charge would reduce by approximately £68,000 which is not material to our audit opinion.

In addition under the terms of the Landlord and Tenant Act 1927, Jones Lang-Lasalle have advised that in certain circumstances the Landlord of the premises may be unable to pursue a claim for dilapidations. As the works completed at Cathedral Road have improved the premises there may be an argument that these works do not have to be put back to their original state. We recommend that the WAO take further advice to confirm the extent of their liability and any mitigating actions that could be taken.

2.3 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 is inconsistent with 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.

2.4 COST ALLOCATION

We consider that there are improvements which could be made to the current method of cost allocation. The cost allocation determines amounts to be repaid to the WCF.

As noted in our key risks consideration should be given to the appropriateness of the overhead allocation. In addition to this direct salary costs are currently allocated on the basis of chargeable client time. This has resulted in approximately 50% of salary costs being directly allocated to project work, with the residual being allocated on the gross income basis.

Whilst we agree that all client chargeable time should be directly allocated, we would further recommend that all productive, non-client time should also be allocated directly to projects on the same basis, with only non-chargeable administration time being allocated on the gross income basis. We feel that this approach would more accurately reflect the amount of time spent by audit staff working on specific assignments, even when this time is not recorded as client chargeable.

2.5 VAT PROVISION

In the prior year a provision was made in the accounts to reflect an on-going disagreement with HMRC over the VAT status of the Wales Audit Office. As the WAO had potentially over-recovered input VAT since 2003/04 a provision of c£2.4m was made to reflect the likelihood that this may be sought to be recovered by HMRC, together with associated interest and penalty charges.

The most recent correspondence with HMRC indicates that they will not pursue historical liabilities on this issue, and instead will recommend that a measure of business / non-business apportionment be introduced with effect from April 2013.

In light of this the full VAT provision has been released in the current year.

2.6 PAYE PROVISION

The WAO continues to be in discussions with HMRC over the treatment of PAYE in respect of employment status and travel and subsistence payments.

On the advice of Grant Thornton, WAO's tax advisors, a payment on account of approximately £90k has been made in the year in order to reduce the amount of interest accruing on the balance. The remaining provision remains appropriate to hold until further clarification on the matter is forthcoming from HMRC.

Furthermore a new provision of circa £30k has been recognised regarding tax treatment of the Employee Assistance Programme (EAP).

3 ADJUSTED AND UNADJUSTED ERRORS

3.1 ACTUAL AUDIT ADJUSTMENTS

	2013 £'000
Net VAT debtor (balance sheet only: c£17k)	-
Net impact	-

3.2 POTENTIAL AUDIT ADJUSTMENTS

There were no potential adjustments which were greater than clearly trifling. We have defined 'clearly trifling' as below £13,500.

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	Dilapidations provision	2
2	Depreciation of capitalised dilapidations costs	2

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

1	Dilapidations provision		Grade: 2
<p>Issue</p> <p>The management team have capitalised a dilapidations cost estimate in the year for the Cathedral Road premises, based on a report provided by Jones Lang-Lasalle, a firm of qualified chartered surveyors. Under the Landlord and Tenant Act 1927 the landlord may not be able to pursue a claim for dilapidations costs if the amendments made to the property by WAO render the premises to be of a similar value as at inception of the lease.</p> <p>Therefore, there may be no requirement for a dilapidations provision to be recognised.</p>			
<p>Recommendation</p> <p>We recommend that management review the lease agreements in detail to ascertain whether or not an obligation has arisen to make good the amendments made to the properties.</p>		<p>Management response</p> <p>Agreed. A further review of the lease arrangements will be commissioned in 2013-14</p>	<p>Action by whom</p> <p>Finance Manager</p> <p>Deadline</p> <p>September 2013</p>

2	Depreciation of capitalised dilapidations costs	Grade: 2
<p>Issue</p> <p>The refurbishment costs associated with Cathedral Road are currently being depreciated over a shorter period than the lease term. If there is no intention to replace these assets before the end of the lease then the depreciation charge may be too high.</p>		
<p>Recommendation</p> <p>Management should re-consider the asset lives in respect of refurbishment work and consider whether these should be extended to match the lease term.</p>	<p>Management response</p> <p>Management consider that the stated accounting policy of depreciating over the shorter of the asset life and remaining term of the lease is the appropriate policy. However, management consider that it is necessary to review whether the current projected asset life of 10 years is appropriate for all categories of fixtures and fittings.</p>	<p>Action by whom</p> <p>Finance Manager</p> <p>Deadline</p> <p>September 2013</p>

5 FOLLOW UP OF PRIOR YEAR RECOMMENDATIONS

Issue	Recommendation	Management response	Status
Authorisation of expense claims			
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.	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..	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.	Implemented. Through our work on systems and walkthroughs, we have evidenced that all employees now require expenses to be authorised by their relevant line manager. This has been in place since September 2012.
Amendments to standing data			
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.	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.	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.	On-going. Since the last audit, a decision has been made to outsource the payroll function. Pending the procurement of a new service, exception reports in respect of standing data are being produced monthly and manual checks of all changes are checked for appropriateness by the Finance Manager prior to payroll submission.

Issue	Recommendation	Management response	Status
Authorisation of credit notes			
<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>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>Agreed. Checks will be performed monthly</p>	<p>Implemented. The finance department now run a report of all credit notes raised in the month and review it to ensure they are reasonable. This has become a part of the month end procedures and we have witnessed an added action on the monthly management accounts checklist to remind the team to complete.</p>
Re-invoicing of trade debtors			
<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>	<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>Agreed. We will ensure that debts are only re-profiled following agreement by the relevant project manager and tracked separately by Finance.</p>	<p>Implemented. This was considered a one-off event by the finance team. The finance team have now all been briefed to ensure they are aware not to re-profile if requested by audit managers. The introduction of reviewing credit notes as part of month end procedures will also pick up any invoices credited in order to be re-profiled.</p>

Issue	Recommendation	Management response	Status
Dilapidations provision			
<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>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>Agreed.</p>	<p>Implemented. A report was commissioned and produced by Jones Lang-Lasalle in the year to estimate the total expected dilapidations cost of the Cathedral Road premises.</p>
Confirmation of goods / services received			
<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>	<p>We recommend that all purchase invoices are authorised by the purchaser / budget manager as confirmation that the goods / services have been received. This could be subject to a de-minimus limit say £20,000 to reduce any additional administrative burden.</p>	<p>Agreed. Procurement procedures set out in the delegated budget handbook will be amended to reflect this requirement and training provided to all relevant staff.</p>	<p>Implemented. A new budget handbook/training manual has been finalised which documents procurement procedures. This manual will be available on the WAO hub.</p>

Issue	Recommendation	Management response	Status
Work in progress			
<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>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.</p>	<p>Agreed. We will ensure that guidance is issued to audit managers in advance of next year's accounts closedown process.</p>	<p>Implemented.</p> <p>Guidance was released to audit managers prior to the year end. We have identified no similar instances of this issue in the current year and consider the recommendation to be implemented.</p>

APPENDICES

APPENDIX 1 – ACCOUNTING & AUDIT UPDATE.

UK CORPORATE GOVERNANCE CODE

The updated code was issued in September 2012 and is applicable to reporting periods commencing 1 October 2012 onwards. Whilst the code only applies to listed companies, exemplar organisations like the Wales Audit Office may wish to consider the requirements of the new code and whether any additional reporting should be included in their Governance statement in future years.

The main changes to the code are as follows;

- Enhanced disclosures on board diversity
- Additional disclosures in respect of the audit committee's roles and responsibilities including:
 - the significant issues that the audit committee it considered in relation to the financial statements, and how these issues were addressed;
 - an explanation of how the committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;
 - if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.
- FTSE 350 companies should put the audit out to tender at least every 10 years

UPDATED AUDITING STANDARDS

As a result of the new Corporate Governance code there have been changes to the following auditing standards to bring these in line with the requirements of the code.

ISA 260 – Communication with those charged with Governance

ISA 265 – Communicating deficiencies in Internal Control

ISA 700 – The auditors report on financial statements

ISA 720A – The auditors responsibilities relating to other information in documents containing audited financial statements.

There are now additional requirements covering the matters that auditors should report to audit committees. Most of the requirements are already covered by our current reporting. One area of change will be more clarity on significant accounting judgements and also where there is a choice of accounting treatment, which treatment has been applied. It is management's primary responsibility to report this to the committee but we will also comment in our reporting for clarity.

NEW ACCOUNTING STANDARDS

There have been no new International Financial Reporting Standards issued which would impact on the WAO accounts.

On 16 May 2013 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) published for public comment a revised Exposure Draft outlining proposed changes to the accounting for leases.

The Boards have developed an approach to lease accounting that would require a lessee to recognise assets and liabilities for the rights and obligations created by leases. A lessee would recognize assets and liabilities for leases of more than 12 months.

There are a wide variety of lease transactions with different economics. To better reflect those differing economics, the revised Exposure Draft proposes a dual

approach to the recognition, measurement and presentation of expenses and cash flows arising from a lease.

For most property leases, a lessee would report a straight-line lease expense in its income statement. For most other leases, such as equipment or vehicles, a lessee would report amortisation of the asset separately from interest on the lease liability. The Boards are also proposing disclosures that should enable investors and other users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases.

The Boards are also proposing changes to how equipment and vehicle lessors would account for leases that are off-balance-sheet. Those changes would provide greater transparency about such lessors' exposure to credit risk and asset risk.

Comments on the revised exposure draft are required by September 2013.

Appendix 2 – Letter of Representation

Dear Sirs

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

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 2013 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 and Treasury Directions made in accordance with that Act 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, as specified by the Public Accounts Committee of the National Assembly under the Government of Wales Act 2006, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the National Assembly for Wales and that 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 2013 have been applied to purposes intended by Parliament and the National 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 Auditor General and except as disclosed in the accounts were free from any charge. All non-current assets belonging to the Auditor General are included.

2. Impairment of non-current assets

Each non-current asset is worth to the Auditor General at least the amount at which it is included in the Statement of Financial Position, either through continued use by the Wales Audit Office (in its current meaning: the Auditor General and his staff) or through the opportunity for sale on the open market.

Liabilities

1. General

All known liabilities of the Auditor General at 31 March 2013 have been included in the balance sheet. All secured liabilities are disclosed.

2. Contingent liabilities

The Auditor General had a contingent liability at 31 March 2013 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 relating to accounting estimates are complete and appropriate.

Commitments

All commitments of the Auditor General 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 2013.

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 2013 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.

Events subsequent to the date of the Statement on Financial Position

On 29 April 2013, Her Majesty the Queen granted Royal Assent to the Public Audit (Wales) Act 2013. This Act creates a new Corporate Body- The Wales Audit Office. Subject the necessary Commencement Orders, those staff employed by the Auditor General, and all assets and liabilities vested in the Auditor General, at 31 March 2014 will transfer to the Wales Audit Office with effect from 1 April 2014.

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

The financial statements have been prepared on a going concern basis as it is clear in the 2013 Act that the current financial operations of the Auditor General will be undertaken in full by the new Wales Audit Office with effect from 1 April 2014.

Potential Audit adjustments

There are no potential audit adjustments as a result of your audit.

Journal entries

There are no journal entries required as a result of your audit.

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Yours faithfully,

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Auditor General for Wales