

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2015-16 Central Government Accounts



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with
the Government of Wales Act 1998.

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The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Summary report

Introduction

- 1 This is my first annual report on my audits of the financial statements of central government bodies. It summarises the results of my audit work for 2015-16 completed at central government bodies (audited bodies) in Wales.

Central government bodies

- 2 **Exhibit 1** summarises the 23 audited bodies included within this report. They are listed in detail in **Appendix 1**.

Exhibit 1

Audited bodies	Number
Welsh Government	1
Welsh Government Sponsored Bodies (charitable and non-charitable)	9
Company subsidiaries of the Welsh Government limited by Guarantee	4
Bodies independent of the Welsh Government	9

- 3 Central government bodies in Wales provide a vast range of services, and in doing so, spend a significant amount of public money. Like all public bodies, they are required to produce, and have audited, a set of annual financial statements (accounts) to demonstrate and report on the stewardship of the public funds entrusted to them, and they are held accountable for doing so.

- 4 All the audited bodies must use their funding for the purposes intended and within the powers and duties that specifically apply to them. However, in addition, three of the audited bodies¹ are required to submit a budget estimate to the National Assembly for Wales (the National Assembly) and are accountable to the National Assembly for the use of that funding, which requires that:
 - a a sum provided for a particular service may not be used to provide another service;
 - b expenditure must not exceed the approved budget; and
 - c amounts provided are for that financial year only and any unused funds must be surrendered back at the year-end.
- 5 Producing accurate and timely accounts is a significant task but is necessary to demonstrate accountability for the stewardship and governance of public funds. Failing to publish such accounts in a timely manner can reflect badly on the audited body, undermining its financial management and corporate governance arrangements, as well as the overall confidence in the organisation.
- 6 The accounting and governance framework applicable to each central government body will be defined by its legal and regulatory framework. This will dictate the form and content of the financial statements and any other reporting requirements such as their Annual Report, and any deadlines for the audit and publication of these documents.
- 7 The central government sector has faced a number of significant challenges. Most notable is the continued downwards financial pressure on budgets, which alongside the changing legal and regulatory framework (new accounting requirements for charitable bodies, changes to Annual Reporting requirements for non-charitable bodies and the passing of the Well-being of Future Generations Act) keeps pressure on audited bodies to find ways of delivering more with less.

¹ Welsh Government, National Assembly for Wales Commission, Public Services Ombudsman for Wales

My audit and reporting responsibilities

- 8 I am the statutory auditor for most of the central government bodies. For the remainder, I am auditor by agreement under paragraph 18(3) of Schedule 8 of the Government of Wales Act 2006.
- 9 I examine and certify each audited body's financial statements and satisfy myself that they:
 - give a 'true and fair' view of the body's financial position;
 - are 'properly prepared'; and
 - do not contain expenditure or income transactions which have been incurred unlawfully or not in accordance with the authorities given ('irregular').
- 10 In undertaking this work, I do not seek to obtain absolute assurance on the truth, fairness and regularity of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled.
- 11 I am also required to report on a number of other issues, including the proper preparation of the Remuneration Report, and I also have the power to place a report alongside my certificate where I wish to draw the attention of readers to a particular issue. My responsibilities are detailed in [Appendix 2](#).

Detailed report

All central government bodies submitted their accounts to audit on time and all audit opinions except one were issued by the required deadlines

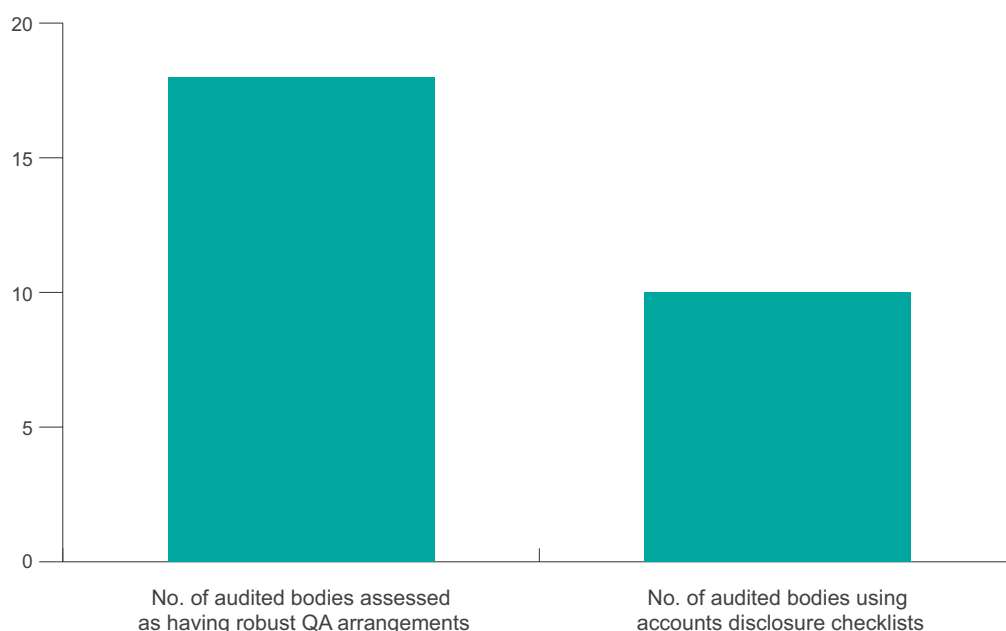
- 12 The 23 bodies this report covers, (as touched on in [paragraph 6](#) above), have varying requirements, and that includes the timing of the production and audit of their accounts. Eleven of the 23 bodies have a deadline by which to submit their draft accounts to me for audit and 18 of the 23 have a deadline for the audit of their accounts.
- 13 All of the 11 bodies met their draft accounts deadline – presenting their draft accounts to me for audit in a timely manner. My audit teams completed their work, and I issued audit opinions by the audit deadline for 17 of the 18 bodies.
- 14 For the one exception, I issued my audit opinion in keeping with the Code of Audit Practice issued under the PAWA 2013 legislation but after the four-month period set out in that body's establishment order. This was a result of detailed investigations regarding the regularity of transactions, detailed later in this report.

The quality of draft accounts and supporting working papers was generally of a good standard, however, there is scope for improvement in places

Accounts quality is good overall, but quality assurance arrangements can be improved by using accounts disclosure checklists

- 15 The quality of the accounts submitted to audit was generally considered to be good. A key aspect to facilitating improvement in the quality of the draft accounts is to establish robust quality assurance processes. Eighteen of the 23 bodies (78%) were considered to have such processes in place. The level of quality assurance arrangements being exercised varied but there were some good arrangements in place. Examples include formal scrutiny of draft accounts by executive teams and those charged with governance prior to submission for audit.
- 16 Using of the relevant accounts disclosure checklists is a valuable way to gain additional assurance over the quality of accounts and demonstrate compliance with relevant accounting standards. We would encourage bodies to use them as part of their quality assurance process. At present only ten audited bodies (43%) are doing so.

Exhibit 2 – quality assurance in 2015-16



Source: Wales Audit Office analysis of data from audit teams

With a few minor exceptions, working papers to support the accounts were of a good standard and at all audits the standard was either as good as or better than previous years

- 17 In order to support the entries in the accounts, audited bodies should provide timely, comprehensive and complete working papers. It is important that auditors and audited bodies agree working paper and other audit requirements in advance to facilitate the timely completion of audit work. Poor or sub-standard working papers lead to increased pressure on audited bodies' finance teams during the audit period and increase the risk that the accounts are not completed by the deadline.
- 18 The working papers to support accounts were generally reported to be of a good standard. However, in a small number of audited bodies, auditors reported that some aspects of the quality, timeliness and accuracy of supporting working papers for the accounts needed improvement. All auditors, however, reported that the quality of the working papers was either as good as or better than in the previous year.

Almost a third of audited bodies made material amendments to their remuneration report or accounts disclosures

- 19 As set out in [paragraph 10](#) above, I do not seek to obtain absolute assurance on the truth, fairness and regularity of the financial statements and related notes, but adopt a concept of materiality – the level of misstatement which might mislead a reader of the accounts.
- 20 Materiality is a matter of professional judgement but was generally set at between 1% and 2% of the level of expenditure (given the difference in size of the audited bodies in this sector, the materiality ranged from £11,000 at the smallest audited body to £146 million at the largest). However, for certain items, I will consider any misstatement to be material eg remuneration of a senior officer (sensitive item); also where amendment would lead to exceeding the approved budget (specific regulatory requirements – see [paragraph 4](#)).
- 21 Good accounts production processes with robust internal quality assurance and review arrangements should be capable of identifying material errors in accounts prior to being submitted for audit. Where material amendments are made, bodies should review their accounts production and quality assurance arrangements to ensure they are capable of picking up such errors before the accounts are certified and passed for audit.

Material misstatements

- 22 When my auditors identify material misstatements, they will ask management to amend the accounts to correct the errors. If they are not corrected, or it is not possible to change them due to insufficient information, I will issue an appropriate qualified audit opinion.
- 23 In 2015-16, six of the 23 audited bodies made material adjustments to their accounts or remuneration report following the audit. The majority of these amendments related to either classification errors or errors in the remuneration reports. Whilst the amendments to the remuneration reports were not always material by value, they were considered material by nature because of the inherent sensitivity of such disclosures.

Non-material misstatements

- 24 When my auditors identify non-material misstatements, these are also brought to the attention of management with a request for amendment. Where such misstatements are not adjusted they do not result in a qualified audit opinion. They are reported to those charged with governance (usually the Audit Committee or equivalent) with a request to amend or an explanation as to why no amendment has been made.

- 25 The areas where misstatements and other qualitative issues were identified in 2015-16 varied significantly across the sector. There were no specific themes across the bodies, which perhaps is to be expected given the varying nature of the work of central government bodies in Wales. Auditors have reported their detailed findings back to the audited bodies concerned.

Unqualified audit opinions were issued on all accounts except for one audited body where the regularity opinion was qualified

- 26 I have issued unqualified opinions on all audited bodies except one in 2015-16 accounts. Where material misstatements were identified, they were amended.
- 27 In one instance, I qualified my regularity opinion. While the financial statements gave a 'true and fair view', I concluded that the decision to agree a number of sales contracts did not follow the correct procedures. I was also unable to satisfy myself that the decision met other relevant rules and requirements. I therefore, concluded that the correct and proportionate action to take is to qualify my regularity opinion. This matter is currently the subject of Public Accounts Committee consideration.
- 28 Details of the types of opinions that can be issued are included in [Appendix 2](#).

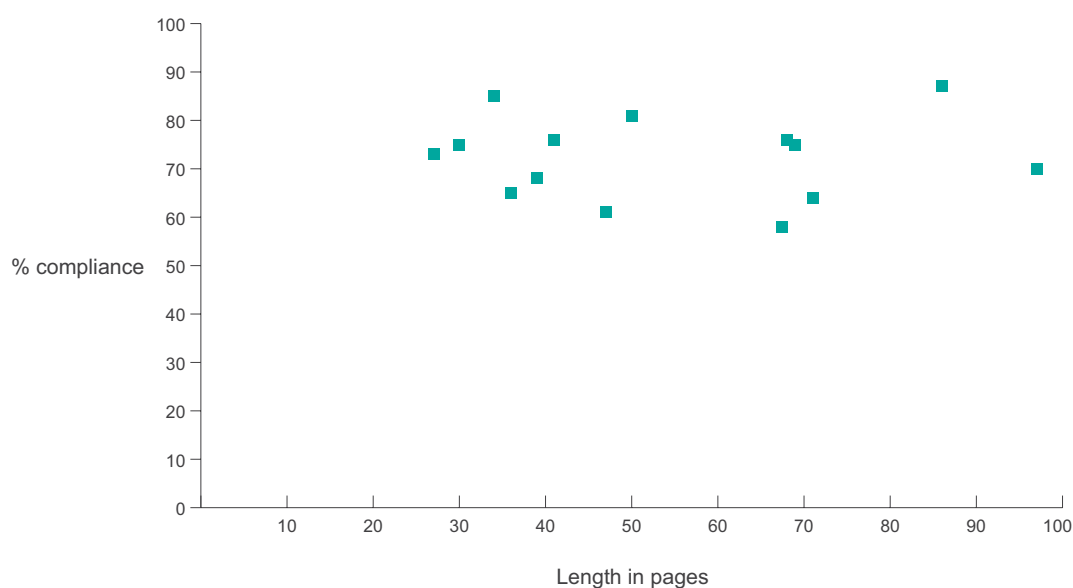
Annual Reports are generally compliant with requirements and include some good practice examples, but many are too long and could be more engaging

- 29 HM Treasury's Simplifying and Streamlining Accounts project aims to improve accessibility and understanding of public bodies' accounts and reports. In 2015-16 as part of that project, the annual report format for bodies required to comply with HM Treasury's Financial Reporting Manual (FReM) changed significantly.
- 30 In recent years, the Public Accounts Committee has taken an interest in scrutinising the accounts and annual reports of central government bodies, including compliance with HM Treasury's reporting requirements. In its 2016 report, the Public Accounts Committee recommended that organisations across the public sector work to present the information within their annual report and accounts as simply as possible and that consideration should be given to utilising diagrams and infographics to make key information as readable as possible².

2 National Assembly for Wales Public Accounts Committee, [Scrutiny of Accounts 2015-16](#), December 2016

- 31 To help identify key areas for improvement and identify good practice, my staff completed a high-level review of their 2015-16 Annual Reports and provided quantitative (compliance) and qualitative (readability etc) feedback. Alongside this my staff also reviewed the annual reports of those bodies required to comply with the Charities Statement of Recommended Practice (SoRP).
- 32 This review was well received by the audited bodies concerned. Our findings are generally positive with good results on compliance, and some good examples of engaging and readable annual reports. The review found:
- a around 70% overall compliance with the FReM (15 non-charitable bodies); and
 - b around 80% overall compliance with the Charities SoRP (three charitable bodies).
- 33 While the compliance omissions are generally straightforward to address (eg confirmation of no issues in some areas; specific wording required in others), more thought needs to be given to the readability and length of the reports. While users will gain a good understanding from the reports, many are overly long, narrative heavy and it is difficult to pull out the key messages. **Exhibit 3** below shows that quality of reporting appears unrelated to length of report.

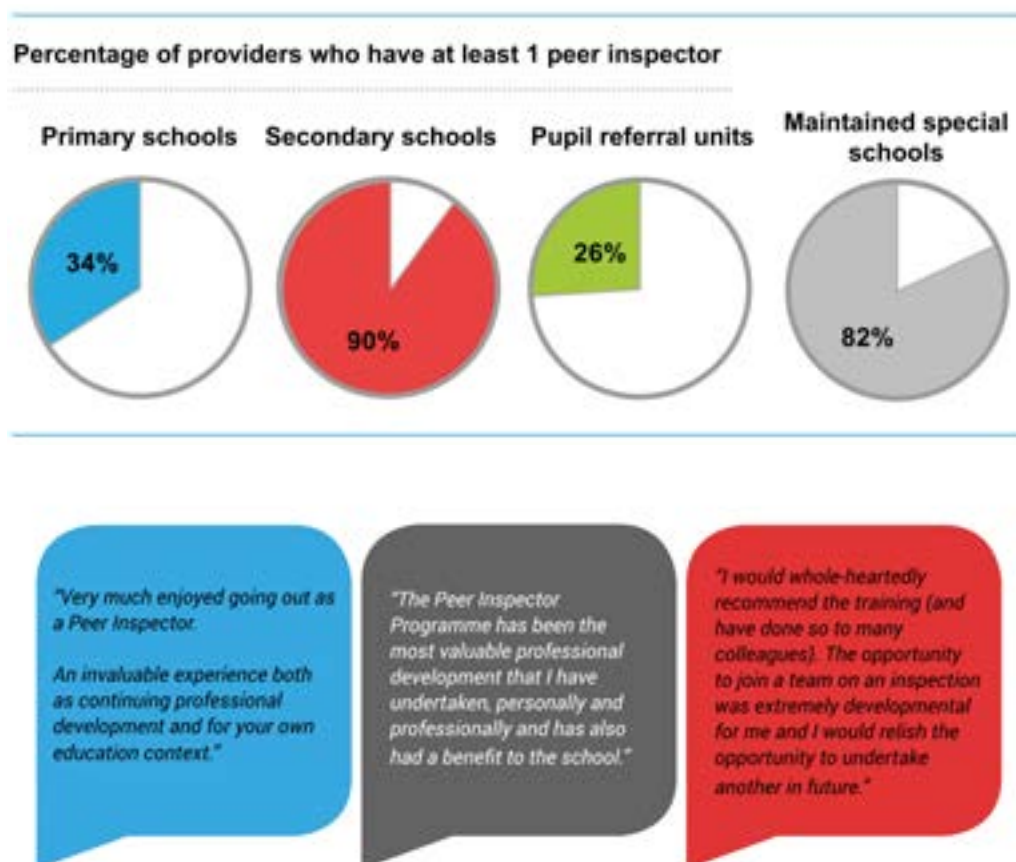
Exhibit 3 – percentage compliance against length of Annual Report



Source: Wales Audit Office analysis of Central Government bodies 2015-16 annual reports.

34 I set out below some examples of good practice worth noting and sharing.

Exhibit 4 – Use of infographics by Estyn to describe performance in relation to their peer inspection programme



Source: Extract from Estyn's annual report.

Exhibit 5 – Use of infographics at the National Assembly for Wales Commission to show their education and youth engagement

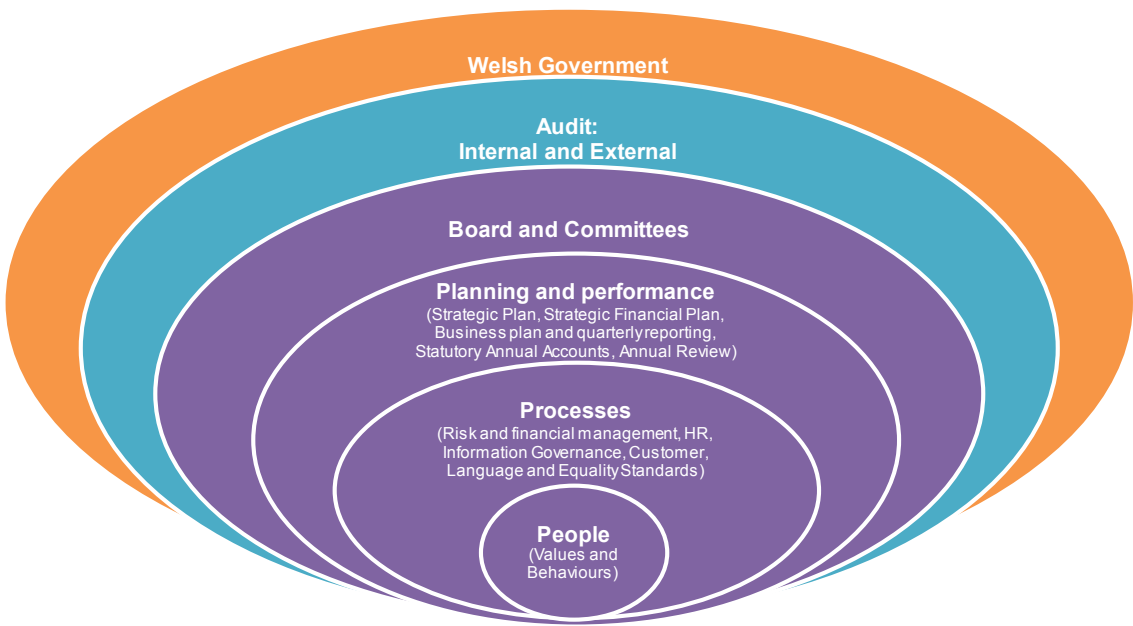
EDUCATION AND YOUTH ENGAGEMENT

We continued to see large numbers of young people from across Wales this year – sharing knowledge about the Assembly's work and how young people can get involved.



Source: Extract from National Assembly for Wales Commission's Annual Report.

Exhibit 6 – Use of infographics at the Care Council to help describe their governance framework



Source: Extract from the Care Council’s Annual Report.

35 **Exhibits 7 and 8** below set out compliance in more detail, but the key questions I would encourage bodies to ask themselves in preparing their Annual Reports are:

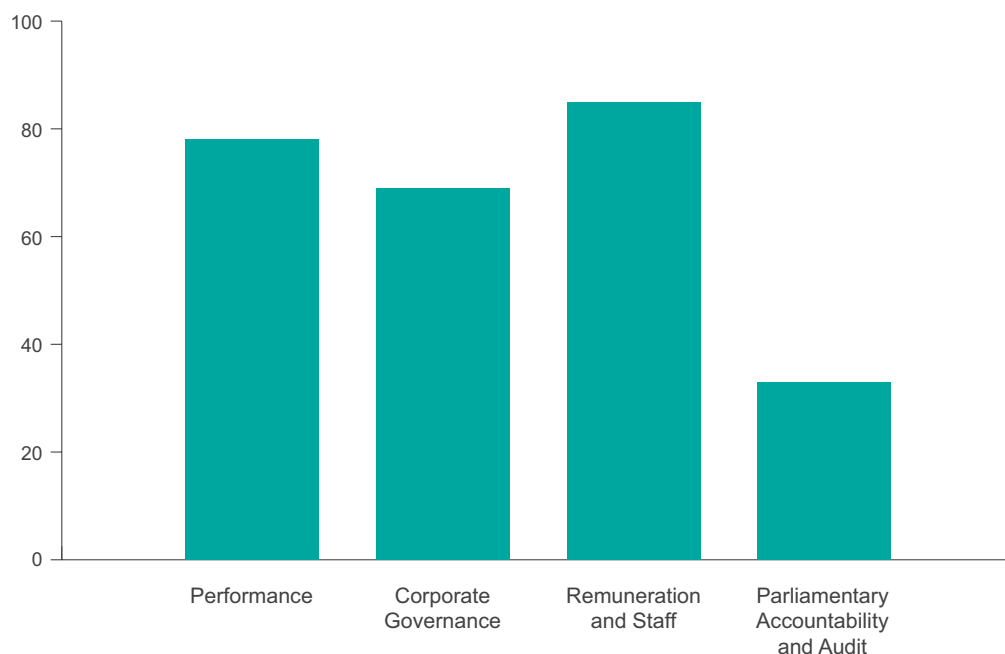
- Does it tell the story of:
 - Who you are and what you do?
 - How you have performed (not just what you have done) and how you measure that performance?
 - What worries the Board (ie key risks and issues)?
 - How you ensure your governance arrangements are appropriate (and are they doing their job)?
- Does it have brevity and clarity:
 - Is it jargon free?
 - Is too much detail masking key messages?
 - Does it flow and make good use of summaries/infographics?
- Are required elements included?

FReM based Annual Reports

36 **Exhibit 7** sets out compliance with FReM requirements analysed over the separate elements of the report:

- **Performance Report** – this aims to ‘tell the story’ of the body, including an overview and performance measures;
- **Accountability Report** – this aims to set out how well the body complies with stewardship and governance requirements and contains:
 - **Corporate Governance Report;**
 - **Remuneration and Staff Report;** and
 - **Parliamentary Accountability and Audit Report** (bodies were measured against all five disclosure items for good practice purposes, although the Welsh Government only required compliance with one).

Exhibit 7 – percentage compliance with FReM requirements



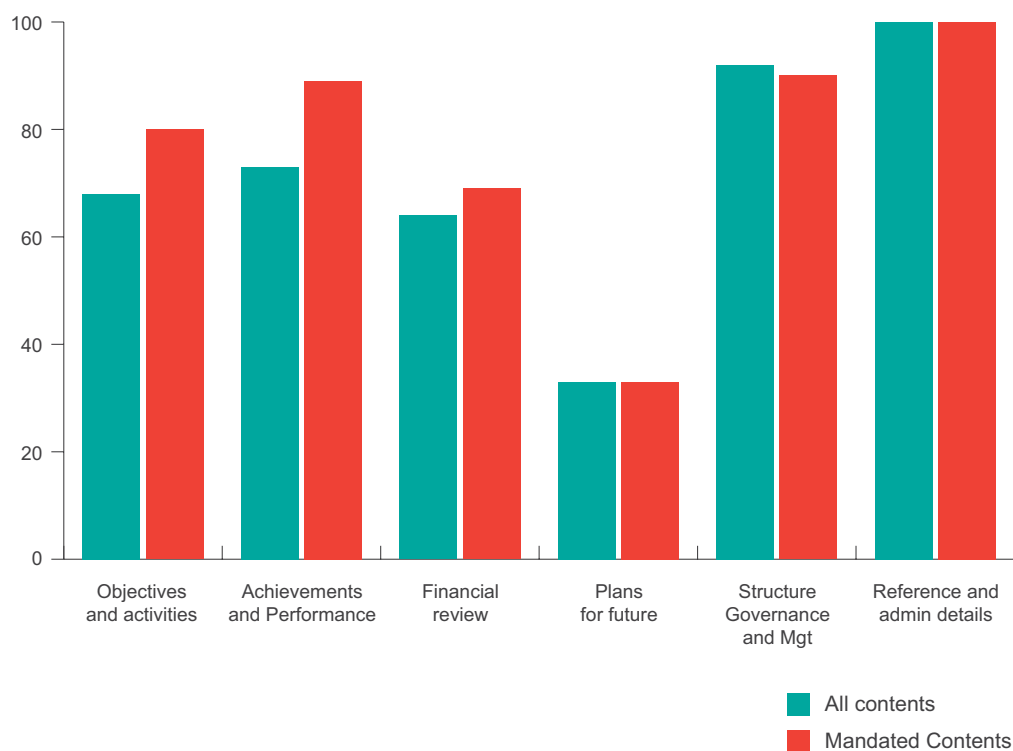
Source: Wales Audit Office review of 2015-16 Annual Reports

Charities SoRP based Annual Reports

37 **Exhibit 8** sets out compliance with Charities SoRP requirements analysed over the separate elements of the report, some of which are mandatory and some of which only apply to larger charities:

- a Objectives and activities
- b Achievements and performance
- c Financial review
- d Future Plans
- e Structure, Governance and Management
- f Reference and administrative details

Exhibit 8 – percentage compliance with Charities SoRP requirements



Source: Wales Audit Office review of 2015-16 Annual Reports

There are a number of forthcoming financial accounting and audit developments that central government bodies will need to consider and prepare for

Future key IFRS changes (relevant to all Central Government bodies except charitable WGSBs)

- 38 Forthcoming changes to accounting standards (dealing with financial instruments, revenue from contracts with customers and leases), introduce key changes to the accounting principles to be applied by central government bodies. In particular IFRS 16 is expected to have a significant impact on accounts preparation.

Future changes to UK GAAP (relevant to charitable WGSBs only)

- 39 Following the introduction of the new UK GAAP accounting regime for 2015-16, there are no changes to FRS 102 expected for the next three years. The FRC will shortly commence a review of FRS 102, the updated version of which is planned to be effective for 2019-20. However, for the 2016-17 financial year, the Financial Reporting Standard for Smaller Entities (FRSSE) has been withdrawn and replaced by Section 1A of FRS 102.

The introduction of the Well-being of Future Generations (Wales) Act 2015

- 40 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report before the next National Assembly election on how public bodies are acting in accordance with the sustainable development principle when setting their wellbeing objectives and taking steps to meet them. In 2017, I will conduct my first work under the Act – the Year One Commentary – to understand how bodies are beginning to respond to the requirements. I am also working collaboratively with a small number of public bodies (including some central government bodies), to develop a future audit approach that is meaningful, integrated and proportionate.

Exhibit 9 – Forthcoming key IFRS changes

Standard	Effective date	Further details
IFRS 9 financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier and timelier recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 revenue from contracts with customers	2018-19	IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on the balance sheet as an asset based on a right of use principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

Appendices



Appendix 1 - Central government bodies in Wales

Exhibit 10

Audited bodies	Number
Welsh Government	1
Welsh Government Sponsored Bodies (non-charitable)	5
Sports Council for Wales	
Sports Council for Wales Lottery Account	
Care Council for Wales	
Higher Education Funding Council for Wales	
Natural Resources Wales	
Welsh Government Sponsored Bodies (charitable)	4
Arts Council for Wales	
Arts Council for Wales Lottery Account	
National Museum Wales	
National Library of Wales	
Company subsidiaries of the Welsh Government limited by Guarantee	4
Hybu Cig Cymru (Meat Promotion Wales)	
Careers Choices	
Sector Development Wales	
Life Sciences Hub	
Bodies independent of Welsh Government Commissioners	9
Older People's Commissioner	
Children's Commissioner	
Welsh Language Commissioner	
Public Services Ombudsman for Wales	
Education Workforce Council	
Estyn	
Qualification Wales	
Local Democracy and Boundary Commission	
National Assembly for Wales Commission	

Appendix 2 - My reporting responsibilities

What I report on in my certificate and report:

Opinion on Financial Statements

- a Do the financial statements give a true and fair view of the state of the body's affairs?
- b Have they been properly prepared?

Opinion on Regularity

Have the expenditure and income in the financial statements been applied to the purposes intended by the National Assembly for Wales and do the financial transactions recorded in the financial statements conform to the authorities which govern them?

Opinion on other matters

- a Has the part of the Remuneration Report to be audited been properly prepared?
- b Is any other information that has been published with the financial statements consistent with those financial statements?

Matters on which I report by exception:

- a where the Governance Statement does not reflect compliance with guidance;
- b where adequate/proper/sufficient accounting records have not been kept;
- c where the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns;
- d where information specified by HM Treasury/Welsh Ministers regarding the remuneration and other transactions is not disclosed; or
- e where I have not received all of the information and explanations I require for my audit.

My Report

I must also consider whether I have any further observations to make on these financial statements and state the position here. If I do have further observations I make them in a separate report and refer to them here.

The context of my reporting: materiality

In planning and conducting the audit, I seek to identify material misstatements whether caused by fraud or error in the financial statements. Misstatements, including omissions are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Where a material misstatement or omission remains in the audited financial statements I will amend my standard certificate and report.

Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.

My determination of materiality is a matter of professional judgement and is influenced by several factors including:

- the type of audited body;
- the nature of the services the body provides;
- legislative requirements; and
- the financial information needs of legislators and other users of the financial statements.

Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

How I can amend my certificate and report

My certificate: qualified and unqualified audit opinions

Type of opinion	Description
Unqualified opinion	The financial statements give a true and fair view and there are no irregular transactions, in all material respects.
Qualified 'except for' opinion – limitation of scope	The financial statements give a true and fair view and there are no irregular transactions, except for the effect of a material matter where the auditor was unable to obtain sufficient evidence.
Qualified 'except for' opinion – disagreement	The financial statements give a true and fair view, and there are no irregular transactions except for the effect of a material matter where there was a disagreement between the auditor and audited body about how the matter was treated in the financial statements.
Adverse opinion	There was a disagreement that was both material and pervasive, that the financial statements as a whole were misleading or incomplete.
Disclaimer of opinion	The auditor was not able to express an opinion, because they could not obtain evidence to such an extent that the financial statements as a whole could be misleading or incomplete.

My certificate: emphasis of matter, other matters, and reports by exception

My audit report may also contain an 'emphasis of matter' paragraph. This draws the attention of users of the financial statements to a matter, or matters, presented or disclosed in the financial statements, which are of such importance that they are fundamental to users' understanding of the financial statements. This does not affect my opinions.

I may add an 'other matter' paragraph if I consider it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, my responsibilities or the audit report.

I report by exception if:

- the annual governance statement does not reflect compliance with guidance;
- the information given in the explanatory foreword was not consistent with the financial statements; or
- I exercise any additional powers or duties under the Public Audit (Wales) Act 2004.

My Report:

Where I have any further observations to make on the financial statements I make them in a narrative report referred to as a 'substantive' report. Ordinarily I will make a substantive report where I qualify any of my opinions, but I may choose to make one where my opinions are unqualified.

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