

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2016-17 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 is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

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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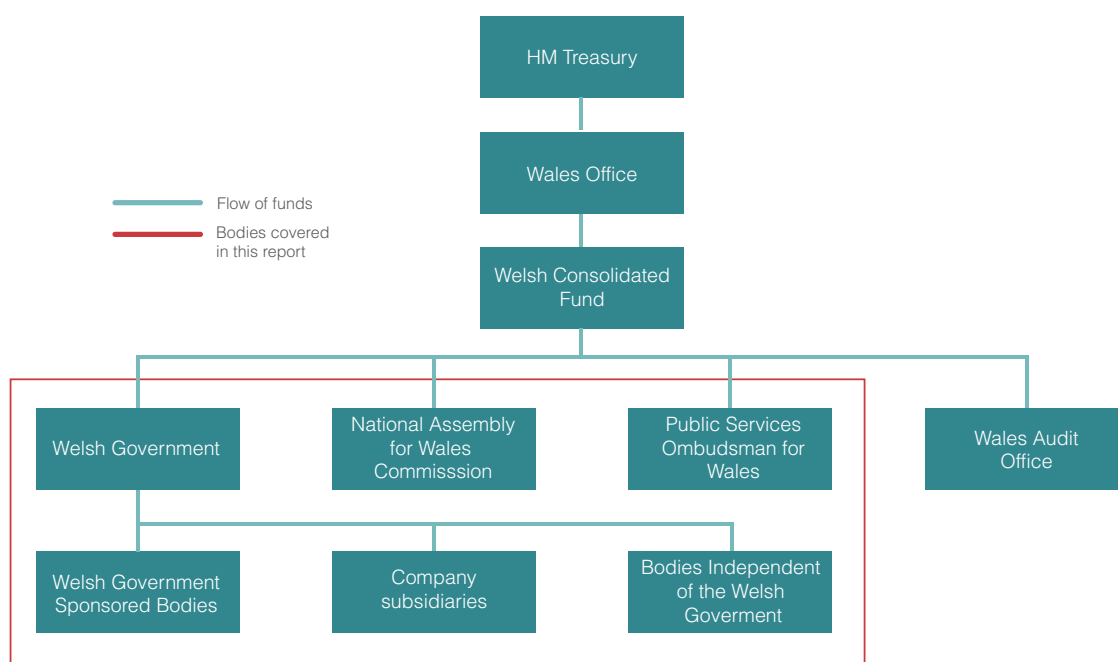
Summary report

Summary

- 1 This is my second annual report on my audits of the financial statements of central government bodies. It summarises the results of my audit work for 2016-17 completed at central government bodies in Wales, as set out in [Exhibit 1](#).

Central government bodies

Exhibit 1 – Central government bodies in Wales



- 2 This report covers those 24 bodies falling within the 'red box' in [Exhibit 1](#) which are audited by the Auditor General for Wales. The 24 bodies are listed in detail in [Appendix 1](#).
- 3 Central government bodies (audited 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, as shown in [Exhibit 1](#), three of the audited bodies¹ receive their funding directly from the Welsh Consolidated Fund, and so 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 unused funds must be ordinarily 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, and to a lesser or greater extent by the additional requirements of its sponsoring group (the group within Welsh Government that provides oversight of the body; relevant to Welsh Government sponsored bodies and company subsidiaries, also known as arms-length bodies). Together these dictate the form and content of the financial statements and other reporting requirements such as their annual report and any deadlines for the audit and publication of these documents.
- 7 I welcome the review currently being undertaken by the Welsh Government of the arrangements governing its relationship with its arms-length bodies. The purpose of the review is to provide assurance to ministers and the Principal Accounting Officer that the Welsh Government has in place arrangements for the proportionate and effective oversight of its public bodies, to identify best practice and make recommendations for the most effective organisational structure for the management of public bodies and for determining, and reconsidering, when an arm's-length body is the most suitable method of delivering ministerial objectives.

1 [Welsh Government, National Assembly for Wales Commission, Public Services Ombudsman for Wales](#)

- 8 Welsh Government's review is particularly timely in the context of the significant challenges facing central government bodies. 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 (Wales) Act 2015) keeps pressure on audited bodies to find ways of delivering more with less. Any improvement in the clarity and efficacy of support and guidance provided by Welsh Government to audited bodies will be welcomed.

My audit and reporting responsibilities

- 9 I am the statutory auditor for most of the audited bodies detailed in [Appendix 1](#). For the remainder, I am auditor by agreement under paragraph 18(3) of Schedule 8 of the Government of Wales Act 2006.
- 10 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').
- 11 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.
- 12 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 set out in more detail in [Appendix 2](#).
- 13 Following my audit of the 2016-17 central government accounts I concluded that overall the standard of the central government accounts and supporting working papers is good, although there remains scope to improve working papers and quality assurance arrangements in some instances. The Annual Reports are generally compliant with the relevant reporting frameworks but further work is also required to make them more succinct and engaging.

Detailed Report

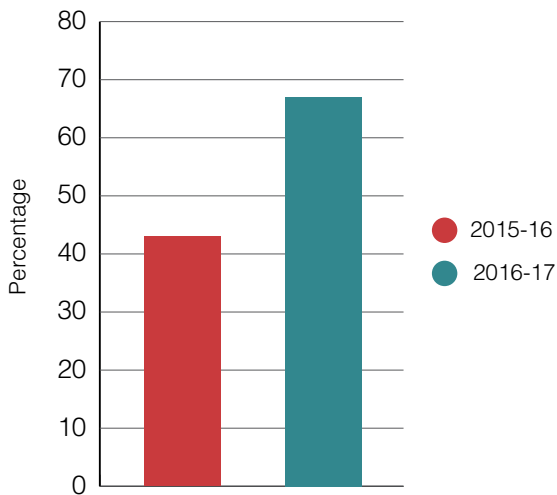
All central government bodies submitted their accounts to audit on time and all audit opinions were issued by the required deadlines

- 14 Statutory deadlines for the production and audit of audited bodies' accounts vary from body to body. However, it is pleasing to report that:
 - all those bodies with a stipulated date for production of accounts for audit, met those dates; and
 - all those bodies with a stipulated date to receive their audit opinions received them by those dates.
- 15 For those bodies without such stipulated deadlines, I set a timeframe after receipt of draft accounts for my teams to complete their audit work and to issue my audit opinion. In all cases the deadlines were met.

The standard of draft accounts remains good but there is scope to improve the quality assurance arrangements adopted by bodies and raise standards further

- 16 The quality of the accounts submitted to audit in 2016-17 was generally considered to be good. Having robust quality assurance processes in place plays an important part in determining the quality of the accounts submitted to audit.
- 17 There was a marked increase in the number of bodies completing the relevant accounting disclosure checklist with sixteen of the 24 bodies now doing so, compared to ten in 2015-16 ([Exhibit 2](#)). The checklists are an important way for bodies to assess their accounts' compliance with the relevant accounting framework and to address any omissions prior to the start of the audit.
- 18 Quality assurances arrangements will be expected to vary from body to body, dependent in part on size and complexity. [Exhibit 3](#) details examples of good quality assurance arrangements noted at audited bodies in 2016-17, which when taken together, form a robust quality assurance process.

Exhibit 2 – percentage of audited bodies using accounts disclosure checklists



Source: Wales Audit Office analysis of data from audit teams

Exhibit 3 – Examples of robust accounts quality assurance arrangements

A table with narrative detailing examples of robust accounts quality assurance arrangements.

- A standard agenda item for meetings of those charged with governance to consider forthcoming accounting developments.
- The appropriate accounts disclosure checklist completed prior to the accounts being submitted to audit. The disclosure checklists are a valuable way to gain additional assurance over the quality of accounts and demonstrate compliance with relevant accounting standards.
- Draft accounts and working papers are subject to formal review by the Director of Finance/Head of Resources prior to submission to audit.
- Draft annual report and accounts are formally considered by those charged with governance prior to the audit, with a supporting report summarising the key points presented by the Director of Finance/Head of Resources to inform their review. This report on the accounts includes:
 - highlights key issues in the annual report and accounts;
 - provides explanations for significant year on year variances;
 - provides commentary on any exceptional items; and
 - reports the final out-turn position reported against the budget.

- 19 In [Appendix 3](#) I have included some of the key questions which those charged with governance may wish to consider when reviewing the Annual Accounts. These questions have been based on the National Audit Office's guide to Central Government Accounts which is an introductory guide for those with an oversight role. In the guide they pose key challenge questions for those with oversight to consider when reviewing accounts. The full guide: [Understanding Central Government Accounts](#) can be found on the National Audit Office (NAO) website.

Working papers provided to support the accounts were generally good with improvements reported at several audited bodies

- 20 In order to support the entries in the accounts, audited bodies should provide my auditors with a comprehensive and complete set of working papers in a timely manner. If working papers are incomplete, sub-standard or not provided promptly, it can 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.
- 21 The working papers to support accounts were generally reported to be of a good standard. In a small number of cases auditors reported that aspects of the quality, timeliness and accuracy of supporting working papers for the accounts needed improvement. Going forward, working paper requirements should be agreed with my auditors in advance to facilitate the timely completion of audit work

Material adjustments are made to draft accounts in over a quarter of audited bodies

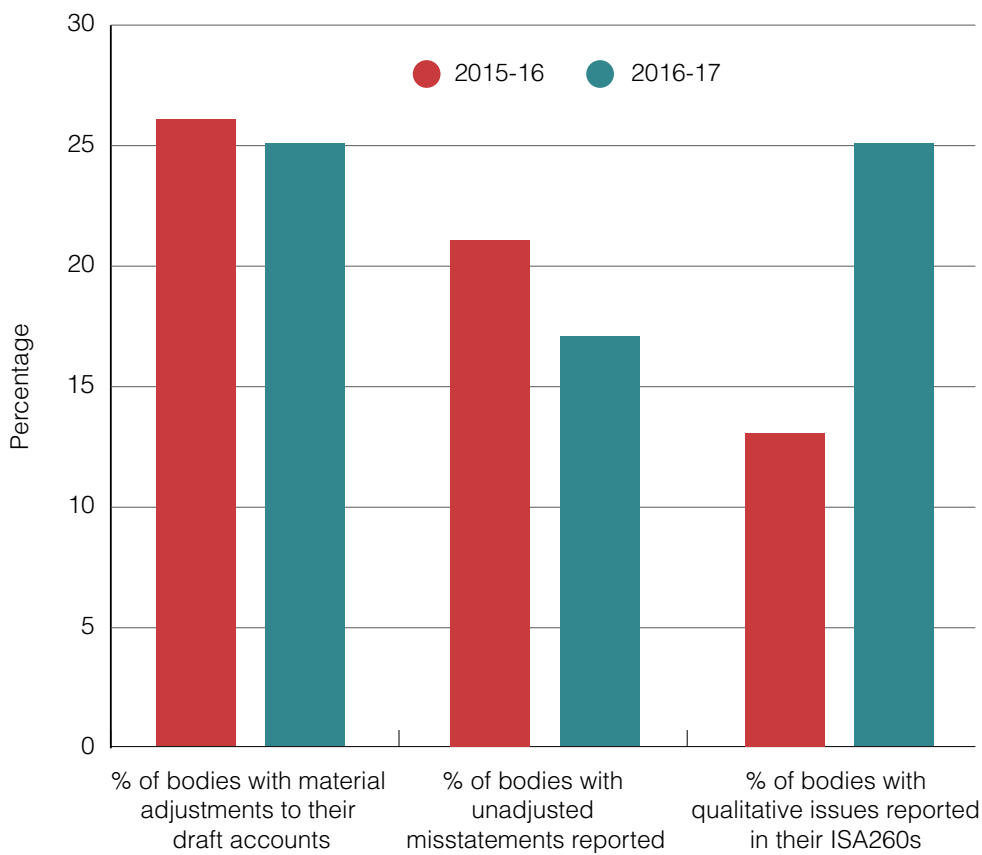
- 22 As set out in [paragraph 11](#) above, I do not seek to obtain absolute assurance on the truth, fairness and regularity of the financial statements and related notes, but adopt a concept of materiality – the level of misstatement which might mislead a reader of the accounts.
- 23 Materiality is a matter of professional judgement but is generally set between 1% and 2% of the level of expenditure. For certain items however, I will consider any misstatement to be material for example, remuneration of a senior officer (sensitive item); also where amendment would lead to exceeding the approved budget (specific regulatory requirements – see [paragraph 4](#)).

24 **Exhibit 4** shows for 2016-17 and 2015-16 the percentage of audited bodies with:

- material adjustments to draft accounts;
- unadjusted misstatements reported; and
- qualitative issues reported;

and are explained in detail below.

Exhibit 4 – matters reported in Audit of Financial Statements Reports



Source: Wales Audit Office analysis of data from audit teams

Material misstatements

- 25 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.
- 26 As shown in [Exhibit 4](#), in 2016-17, 25% of audited bodies made material adjustments to their accounts or remuneration report following the audit. This is marginally lower than the percentage as reported in 2015-16. Where material amendments are made, bodies should review the reasons why the errors occurred and ensure recommendations made by my auditors in respect of these errors are implemented. Bodies should also review their accounts production and quality assurance arrangements to ensure they are sufficiently robust to pick up such errors before the draft accounts are passed for audit. Two thirds of those bodies reporting material errors in their accounts had not completed the relevant accounts disclosure checklists, further highlighting how useful these can be in the quality assurance process.

Unadjusted misstatements and qualitative matters

- 27 When my auditors identify non-material misstatements, they are brought to the attention of management with a request for amendment or a written representation as to why no change will be made. 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.
- 28 It is pleasing to see that the level of unadjusted misstatements reported in 2016-17 fell compared to the previous year ([Exhibit 4](#)). Processing non-material adjustments is time consuming for both the audited bodies and my auditors. Although I want to see high quality accounts, I acknowledge that in the interests of streamlining the accounts and audit process and delivering on early closing, we might expect to see fewer corrections of identified non-material misstatements, and that this in itself does not necessarily indicate a drop in quality.
- 29 The areas where immaterial misstatements and other qualitative issues were identified in 2016-17 varied significantly. There were no specific themes across the bodies to report which given the varying nature of the work of central government bodies in Wales, is to be expected. Following each audit, detailed findings have been reported back to bodies in their Audit of Financial Statements Reports.

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

- 30 As set out in [Paragraph 10](#), on each audited body's accounts I must provide an opinion on whether they:
- give a 'true and fair' view of the body's financial position;
 - are 'properly prepared'; and
 - only contain expenditure or income transactions which have been incurred lawfully and in accordance with the authorities given ('regular').
- 31 All audited bodies' 2016-17 accounts were 'true and fair' and 'properly prepared', where material misstatements were identified ([see paragraph 25-26 above](#)), they were corrected.
- 32 With one exception, which I detail below, no audited body's accounts contained material irregular income or expenditure.
- 33 In 2015-16 I qualified my regularity opinion for one body and, in 2016-17, their regularity opinion was qualified on the same basis. While the financial statements of the body concerned 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 was to qualify my regularity opinion².
- 34 Further explanations of the various opinions that I issue are included in [Appendix 2](#).

Annual Reports are increasingly compliant with their reporting requirements but work is needed to improve readability

- 35 Last year, in the context of new HM Treasury annual reporting requirements and Public Accounts Committee³ recommendations to improve accessibility and readability of annual reports, including the use of diagrams and infographics for key data, I reported the findings of my high-level review of audited bodies' 2015-16 Annual Reports.
- 36 Findings were generally positive with reasonable levels of compliance and some good examples of engaging and readable annual reports. However, notwithstanding those examples, more work was needed to improve readability, eg reducing overall length and replacing narrative with infographics; and also to provide better reporting on performance and key risks.
- 37 This year my staff followed up their previous work by undertaking a light touch review of 2016-17 annual reports to check whether the compliance omissions in 2015-16 reports had been rectified (it has been assumed that previously compliant elements remain so in 2016-17) and whether there is greater use of diagrams and infographics in presenting information.
- 38 Our overall findings on compliance are set out in **Exhibit 5** for the annual reports of the 15 audited bodies following HM Treasury's Financial Reporting Manual (FRoM), and **Exhibit 6** for annual reports of the three audited bodies following the Charity Commission's Statement of Reporting Practice (SoRP).
- 39 Overall compliance has improved for both FRoM and SoRP reports. Individually almost all bodies increased their compliance score, a small number markedly so, with some now just marginally short of full compliance. It is also pleasing to note that almost 50% of the annual reports now make better use of infographics particularly in providing a 'snapshot' or summary of the year, and making presentational changes to highlight key issues.
- 40 There remain some individual bodies with more work to do, however I recognise that given limited resources, incremental movement in the right direction is a positive step, and encourage audited bodies to keep up the momentum.

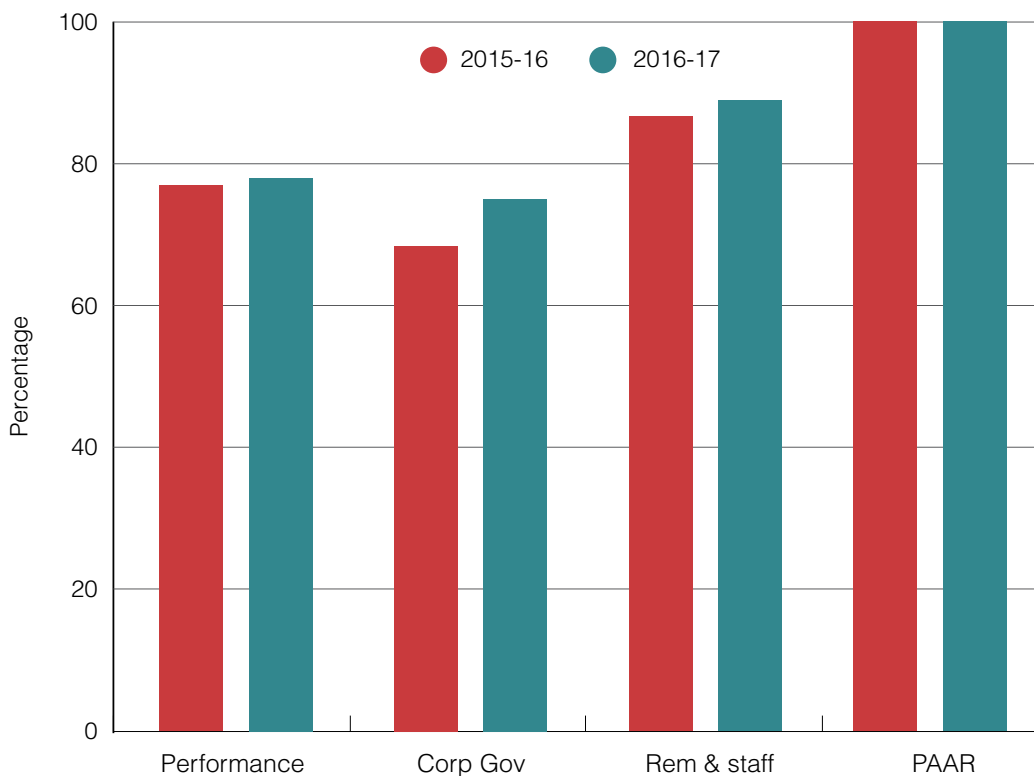
3 National Assembly for Wales Public Accounts Committee, **Scrutiny of Accounts, 2015-16**, December 2016

FReM Annual Reports

41 Exhibit 5 shows compliance with the required FReM report elements:

- **Performance Report** – this should ‘tell the story’ of the body, including an overview and performance measures;
- **Accountability Report** – this should 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** (measured against mandated items only (2015-16 is re-stated)).

Exhibit 5 – Annual Report compliance with FReM requirements

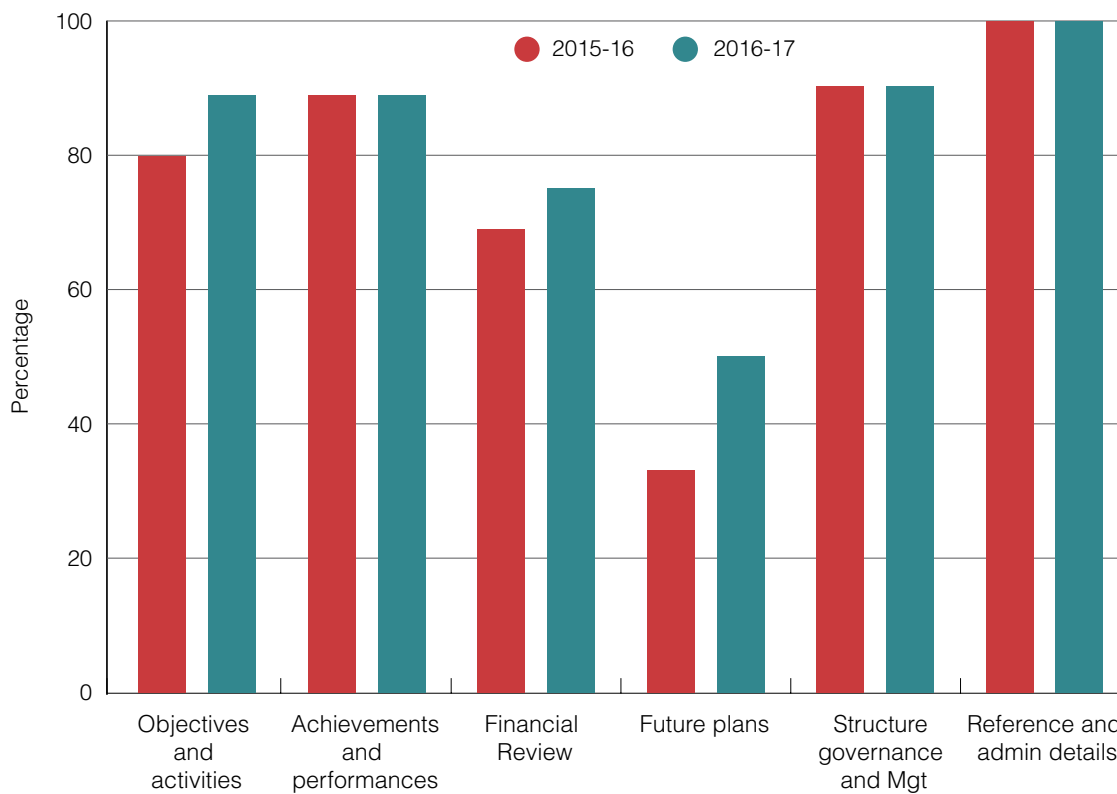


Source: Wales Audit Office review of 2015-16 and 2016-17 Annual Reports

Charities SoRP Annual Reports

42 Exhibit 6 shows compliance with mandated Charities SoRP requirements analysed over the six separate elements required in the report.

Exhibit 6 – Annual Report compliance with mandated Charities SoRP requirements



Source: Wales Audit Office review of 2015-16 and 2016-17 Annual Reports

Qualitative aspects

- 43 While compliance omissions are generally straightforward to address, it is more difficult to address readability and accessibility issues. It is far easier to write a long narrative report than a short engaging report using infographics to simplify complex reporting. Given the finite and very limited resource in many of the audited bodies this is especially difficult.
- 44 Improving annual reporting will be an iterative process and learning from others is key. Good practice identified from the annual [Excellence in reporting in the Public Sector](#) award is a great reference document to learn from and is available on the NAO website. Awarded jointly by PricewaterhouseCoopers and the National Audit Office, continued improvement has been seen in public body reporting, with more time invested in producing engaging and clear annual reports but also making use of good practice examples from their peers.
- 45 In [Exhibit 7](#) below I reiterate from last year's report the key questions I would encourage bodies to ask themselves in preparing their Annual Reports. These questions should help reports focus on the key issues without allowing them to get lost in too much narrative. Excellence in reporting doesn't mean providing more information, but instead ensuring that key insights and issues are communicated clearly, in balanced and transparent manner.

Exhibit 7 – Key questions to ask when compiling an Annual Report

Does it tell the story of:



Who you are and what you do?

How you have performed and how you measure performance?

What worries the Board?

How you ensure governance is doing its job?

Does it have brevity and clarity?



Is it jargon free?

Is too much detail masking key messages?

Does it flow and use good summaries and infographics?

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)

- 46 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.

Exhibit 8 – Forthcoming key IFRS changes

A table showing forthcoming key IFRS changes in standards IFRS's 9, 15 and 16.

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.

Standard	Effective date	Further details
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.

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

47 Following the introduction of the new UK GAAP (Generally Accepted Accounting Principles) accounting regime in 2015-16, and the replacement of the Financial Reporting Standard for Smaller Entities (FRSSE) by Section 1A of FRS 102 in 2016-17, there will be no substantive changes to FRS 102 until 2019-20. Any changes made then are expected to be limited in nature. More significant amendments are expected from 2022-23, reflecting recent changes in International Financial Reporting Standards, including accounting for financial instrument and leases.

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

48 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. This year I am conducting my first work under the Act – the Year One Commentary – to understand how bodies are beginning to respond to the requirements. Undertaking the Year One Commentary will enable the Wales Audit Office to provide some early feedback without prescribing expectations for how public bodies should be undertaking their new responsibilities. The Year One Commentary will aim to support progress, while ensuring that new approaches can emerge.

49 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. The outputs from this work will be shared at a national event in May 2018.

National Fraud Initiative

50 National Fraud Initiative (NFI) is a data-matching exercise that helps detect and prevent fraud and overpayments from the public purse across the UK. The NFI matches data across organisations and systems to help public bodies identify fraud and overpayments.

51 Since it began in 1996, NFI exercises have resulted in the detection and prevention of more than £30 million of fraud and overpayments in Wales and £1.3 billion across the UK.

52 NFI exercises are run every two year and the 2016-17 NFI exercise to date has identified £4.8million worth of fraud, error and overpayments. Forty two Welsh public sector bodies took part in the exercise. These included the Welsh Government and 4 Welsh Government Sponsored bodies who participated on a voluntary basis. We are currently working jointly with the Welsh Government to extend NFI data-matching into new areas that are considered to have a high level of inherent fraud risk.

53 I would encourage all audited bodies to take part in the bi-annual exercise. Though there may not be substantial savings to individual bodies from the exercise there are wider benefits to consider:

- pan-public sector – the more participants, the greater effectiveness;
- the work will form part of an audited body's assurance framework;
- participation does prevent and detect fraud. Publicised participation is a deterrent to would-be fraudsters; and
- continually evolving with new data sets and matches introduced. Grants due diligence likely to be a future dataset.

Appendices



Appendix 1 – Central government bodies in Wales audited by the Auditor General for Wales (AGW) or by the AGW on behalf of the National Audit Office

A table listing the central governments bodies in Wales audited by the Auditor General for Wales (AGW) or by the AGW on behalf of the National Audit Office.

Audited bodies	Number
Welsh Government	1
Welsh Government Sponsored Bodies (non-charitable)	4
Sports Council for Wales	
Social Care Wales	
Higher Education Funding Council for Wales	
Natural Resources Wales	
Welsh Government Sponsored Bodies (charitable)	3
Arts Council for Wales	
Amgueddfa Cymru – 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 Dewis Gyrfa Ltd	
Sector Development Wales	
Life Sciences Hub	

Audited bodies	Number
Bodies independent of Welsh Government	10
Older People's Commissioner	
Children's Commissioner	
Welsh Language Commissioner	
Future Generations Commissioner	
Public Services Ombudsman for Wales	
Education Workforce Council	
Estyn	
Qualifications Wales	
Local Democracy and Boundary Commission	
National Assembly for Wales Commission	
Accounts audited on behalf of the Comptroller and Auditor General	2
Sports Council for Wales Lottery Account	
Arts Council for Wales Lottery Account	

Appendix 2 – My reporting responsibilities

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

Table detailing how the Auditor General for Wales can amend his certification and report. It describes the 5 types of auditor opinions that can be expressed.

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.

Appendix 3 – Key questions for those charged with governance to consider when reviewing the accounts

Primary Statements and Notes

- Can management explain any significant differences between this year and last year?
- Have management sufficiently explained the basis for any prior year restatements? Are such explanations appropriate?
- Do any of the analyses of expenditure or income include significant amounts categorised as 'other'. If so, what does this relate to?
- Are the disclosed operating segments consistent with your understanding of how the department functions, and how it reports and informs its decision-making processes?
- Are there significant current or non-current liabilities (including provisions) on the Statement of Financial Position? Do they represent future risks to the body which should be included in the risk register?
- Does the Statement of Cash Flows demonstrate use of resources in line with the body's priorities? For example, does the 'Cash flows from investing activities' section reflect investment in future assets or infrastructure?
- Are there any non-descriptive lines (for example, which include the word 'other')? If so, what do these relate to, and is it right that they are included in the Statement of Cash Flows?
- Are there any unusual reserves, or transfers between reserves, that require explanation?
- Are the accounting policies understandable?
- Are there any significant commitments which are at risk from potential changes in policy or plans? For example, are any leased buildings likely to become unused before the end of the lease period?
- Have management clearly explained the rationale behind any additional obligations entered into during the year?
- Are the contingent liabilities consistent with the risk register?

Governance Statement and Remuneration Report

- Is the Governance Statement a balanced reflection of the department's activities in this area? Are risks and weaknesses openly and honestly considered?
- Has appropriate approval been obtained for exit packages which are outside of standard terms?
- Are the changes in numbers of staff employed in line with your understanding of changes in the department during the year?
- Has relevant approval been obtained for reported losses and special payments?
- How have management satisfied themselves as to the value for money case for these payments?

Source: Questions based on the National Audit Office's guide to Central Government Accounts

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