

**Summary Briefing to the Members of the Public Accounts Committee of the
Welsh Assembly Government**

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EXECUTIVE SUMMARY

This summary briefing document outlines the key facts in respect of the external audit process that occurred during the course of the audit of the accounts of the Auditor General for Wales for the year ended 31st March 2010. This briefing also presents facts in respect of certain matters of significance contained within the NAO Report entitled "Review of the Accounts of the Auditor General for Wales" for the period 2005/06 to 2009/10".

Where relevant, certain evidence is appended to this briefing document.

KEY THEMES – MR SNOW'S SEVERANCE PACKAGE

- The existence of the redundancy package of Mr Snow was first communicated to us in the external audit planning meeting held on 1st March 2010. The details of the severance were not disclosed to us in that meeting.
- At the 1st March 2010 external audit planning meeting we clearly described the principles of the accounting and disclosure of severances in accordance with IAS19 (Appendix I to this briefing provides an extract of the minutes of that external audit planning meeting).
- On the 16th March 2010 an Audit and Risk Committee (ARMC) meeting was held. We presented the external audit strategy document which was approved by the ARMC. (Extracts of this document are shown in Appendix II).
- On the 10th May 2010, the external audit fieldwork commenced. We were provided with AGW's draft accounts after review by WAO's in-house technical partners in accordance with the requirements of the external audit strategy document (see Appendix II). These draft accounts did not contain any provision or disclosure in respect of Mr Snow other than provision for the lump sum. The compromise agreement for Mr Snow was provided to us (and was the only documentation provided in respect of Mr Snow). The compromise agreement was noted to be silent on the quantum of obligation in respect of pensions. It was established with WAO that no further information was available as regards quantum. It was established that lump sums in respect of Mr Snow were accounted for in the draft accounts as well as a £715,000 provision for the voluntary severance scheme announced to WAO staff on the 31st March 2010.
- On the 25th May 2010 the external audit close meeting took place. The need to provide for the pension obligation for Mr Snow and WAO's inability to provide quantum was discussed. We noted that there was no reference (in the draft accounts presented for audit) to the continuing pension obligation and we insisted this be addressed and the disclosure of the continuing obligation was agreed. We requested that the accounts receive full review by the Interim Auditor General and Managing Partner - Planning and Resources. We also advised WAO that we would require a specific written representation from the Auditor General on the accounting for severances. (Extracts from the minutes of this meeting are shown at Appendix III).
- In contrast with the absence of data on Mr Snow's provision, in respect of the voluntary severance scheme, there was sufficient data available for WAO to make a provision.

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- On the 9th June 2010 an ARMC meeting was held. The draft accounts were discussed in detail. The distinction was drawn between the basis of calculation of the voluntary severance provision recorded in the accounts, that Mr Snow's pension commitment could not be quantified and that the accounts contained disclosure of the ongoing pension obligation in the remuneration report.
- On the 18th June 2010, the accounts are signed by the Auditor General and External Auditors and laid at the National Assembly for Wales. The Auditor General for Wales also signed the Letter of Representation to us which included specific representation in respect of the completeness of the severance provisions and attested that all information had been made to us. (A copy of this Letter of Representation is shown at Appendix IV).

KEY THEMES – NAO REPORT

- The accounting for financing from the National Assembly within the WAO accounts is based on advice and clearance from HM Treasury given on the 1st November 2005. The advice established the basis of a commercial framework using an accruals accounting format. A copy of the email from HM Treasury in this regard is shown at Appendix V. There has been no further Accounts Direction.
- The accounting for early departures of staff in 2005 was based on WAO interpretation of Financial Reporting Standard 12.
- A provision in respect of lease costs on vacated WAO premises was not provided in the 31st March 2008 accounts as WAO were to sub let the property.
- The provision of £715,000 for the voluntary severance scheme was established as there was an obligation and data was available to the WAO to enable a provision to be made.

**APPENDIX I Extract from Minutes of External Audit Planning
Meeting held on the 1st March 2010**

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APPENDIX I

Extract from External Audit Planning Meeting Minutes

Meeting held on the 1st March 2010

A Snow

September – compromise agreement with confidentiality clause.

WAO – PCPS para 8 (268) not need to disclose.

External Auditor – legal advice should be taken and IFRS will almost certainly require disclosure.

WAO - Package - lump sum.

External Auditor - Approve early retirement? So total package more than lump sum?

WAO - Is part of compromise agreement.

External Auditor - Clearly provision expected to be made in accounts but presently need to try to get best estimate. – under IAS19 definitely need to provide best estimate of total package not just what is paid. Can this be calculated?

WAO – to do from compromise agreement initially. Take advice internally.

External Auditor - Need to be consistent, make appropriate adjustment to accounts and disclosure.

APPENDIX II Extract from the External Audit Strategy Document
for the year ended 31st March 2010 presented to
WAO's Audit and Risk Committee (ARMC) on the
16th March 2010

APPENDIX II

Extract from External Audit Strategy Document 31st March 2010

Presented to WAO's Audit and Risk Committee (ARMC) on the 16th March 2010

Responsibility for the Preparation of Accounts

The primary responsibility for the preparation of the financial statements and the regularity of financial transactions lies with the Auditor General for Wales. The financial statements will be prepared in accordance with Government Accounting Standards and International Financial Reporting Standards (IFRS) as directed by the iFREM (the Government Financial Reporting Manual).

Records to be provided for External Audit inspection

We have agreed WAO Finance department will process all relevant general ledger transactions to allow trial balances to be made available with the draft financial statements for audit purposes. Any amendments made to the trial balances after the close of books will be discussed with External Audit staff and supported by a journal voucher and any other underlying documentation. Further adjustments may be required as a result of our audit findings.

Our main assumptions are:

- that the internally generated accounts have been subject to such management review and validation as is necessary, and that you are satisfied that they are "true and fair";
- that all supporting schedules to the accounts have also been subject to a quality management review;
- that appropriate WAO staff are available during the audit;
- that all the necessary controls and checks in place such that the Auditor General can provide all the assurances required in the Auditor General for Wales' Letter of Representation to us;
- that as a result of Internal Audit having completed their programme of work, management have taken all necessary remedial action which could have affected the accounts.

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**APPENDIX III Extract from the minutes of the External Audit
Close Meeting held on the 25th May 2010**

APPENDIX III

Extract from External Audit Close Meeting Minutes

Meeting held on the 25th May 2010

Remuneration Report – Anthony Snow and others

Footnote 1 – all went to salary this year.

External Auditor - Footnote 2 - FREM says must show compensating payment for term amount. If you also make annual compensation payment – as he left early retirement when he takes drawdown.

WAO - Yes is annual contribution to age 60. Compromise agreement.

WAO - AER (Approved Early Retirement) – don't know what the figure is, what to estimate

External auditor - need to disclose. FREM clear that need to provide though. AER is compensating consideration.

WAO - Compensation agreement agreed with lawyers. Had to go through a process with DWP. So paid £ in one lump sum, taxed and NI treated as redundancy payment. No other information.

WAO - Other aspect of pension lump sum is current value?

WAO - Ranges:

1. Lump sum alone – ie savings offset

External Auditor - Agreed commercially surely?

WAO - yes, would have been commercial decision

WAO - 2. Death stops liability – reduction in same way

WAO - 3. Discounting and probability of death

WAO - 4. Pension scheme varies – actuarial

WAO - 5. What if other lump sum (taken) out – curtails? And early retirement?

The current value is not (value of) old pension (rate) no years as is more complicated. Variations could be large.

WAO – Too many variables, not able to calculate effectively, not likely to be worst case – range is nil too? Not calculated. Cannot.

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External Auditor - if cannot form estimate then need to disclose obligation exists. IAS will dictate that else is wrong. But is rare, (there) must be way of estimating?

WAO agreed – nothing in accounts now, would not like to disclose more than necessary. Present position discloses the lump sum surely sufficient?

External Auditor – no, need more need to disclose the obligation and try to calculate.

WAO - Cannot undertake this – so need form of wording for a disclosure of obligation. WAO suggested wording, External Audit considered, agreed with proviso that this **must** be cleared through Auditor General and Managing Partner, Planning and Resources - very sensitive. Now grey as is disclosure only. They **must** be content.

External Auditor – (This) needs discussion – (ie) draw attention to charge and fact nothing booked. Must have point in rep letter also (from Auditor General).

WAO will confirm to External Auditor that Auditor General and Managing Partner, Planning and Resources reviewed accounts as normal and ok on rep point – wording will be drafted.

External Auditor – Sure nothing further to ensure wider disclosure/clear guidance available?

WAO – no.

External Auditor - can understand difficulty with the IFRS as is out of kilter other standards – point is that say operating leases do not roll up this (sort of) provision. What about benefits? Rule is there through. Sympathy from External Auditor but standards is clear.

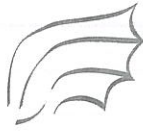
WAO - confirmed that the compromise agreement not state a figure re AER and is normal.

WAO - This (is) also (an) issue, nothing to guide us to effect max liability. No other guidance. Nothing to work on now.

Proceed on basis agreed above. Await review and clear thereafter.

**Summary Briefing to the Members of the Public Accounts Committee of the
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**APPENDIX IV The Auditor General for Wales Letter of
Representation to the External Auditors in
respect of the 2009/10 Accounts**



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Auditor General For Wales – Wales Audit Office

This representation letter is provided in connection with your audit of the financial statements of the above for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position as of 31 March 2010 and of the results of its operations for the year then ended in accordance with the Government of Wales Act 2006, Treasury guidance and International Financial Reporting Standards as defined by the FREM.

The financial statements have been considered and reviewed at a duly convened meeting of the Audit and Risk Management Committee at which the attention of the relevant individuals was drawn to their responsibilities in connection therewith. I, as the accounting officer, am authorised to sign the accounts and to give you the assurances below. I acknowledge my responsibility for the fair presentation of the financial statements in accordance with the Government of Wales Act 2006, Treasury Guidance and International Financial Reporting Standards as defined by the FREM.

I confirm to the best of my knowledge and belief, the following representations:

(a) Availability of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the organisation 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 management meetings which are a complete and authentic record of the proceedings at those meetings.

(b) Transactions with management (or persons connected with them)

At no time during the year has the organisation had any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for management of the organisation (or persons connected with them) or to guarantee or provide security for such matters.

(c) Related parties and related party transactions

I have identified and disclosed to you all related parties. During the year the management of the Wales Audit Office have identified and approved related party transactions and provided the information for disclosure of all transactions relevant to the organisation in the financial statements. They are not aware of any other matters which require to be disclosed under IAS 24 ('Related Party Disclosures) or other requirements.



(d) Events after the balance sheet date

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or the inclusion of a note thereto. Should any such material events occur, we will advise you accordingly.

(e) Going concern

The financial statements have been prepared on the going concern basis. In assessing the appropriateness of the going concern basis, I have taken account of all relevant information covering a period of at least twelve months from the date of approval of the financial statements.

I am satisfied that relevant disclosure has been made in the financial statements which enables them to give a true and fair view.

(f) Fair Value measurements and disclosures

The measurement methods, including the significant assumptions used, in determining fair values under International Financial Reporting Standards (as defined by the IFRS) are reasonable in the circumstances, and appropriately reflect our intention and ability to carry out specific courses of action on behalf of the organisation where relevant to the fair value measurements or disclosures made in the financial statements.

(g) Compliance with law or regulations

I have disclosed to you all known actual or possible non-compliance with law or regulations, including the actual or contingent consequences which may arise from the non-compliance, whose effects should be considered when preparing the financial statements.

(h) Fraud and error

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud and error. I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to you all significant facts relating to any frauds or suspected frauds known to the Wales Audit Office management that may have affected the entity.

(i) Uncorrected misstatements

There are no unadjusted audit differences identified pertaining to the latest period presented.

(j) Contingent liabilities

Provision has been made, if appropriate, where a material loss is expected to result from any litigation or claims against the organisation. Other contingent liabilities at the balance sheet date, none of which is expected to result in a material loss to the organisation or in



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commitments which it cannot meet, have been disclosed in the financial statements. In particular, I have taken professional advice in respect of the corporation tax position, VAT position and in relation to certain staff matters and have ensured that relevant disclosures, in line with that advice, are incorporated into the accounts.

(k) Dilapidation/Bad Debt/Severance Provisions

I confirm that the basis for the determination of the provisions are appropriate and reasonable and are consistent with all relevant information available at the time of the audit and to the date of signing of the accounts. In particular I believe that the current provisions for the whole of the organisation are adequate in respect of all expected liabilities arising.

I confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of evidence) sufficient to satisfy myself that I can properly make each of the above representations to you.

Yours faithfully

Gillian Body
Auditor General for Wales

18 June 2010



**APPENDIX V Correspondence from WAO providing HM Treasury's
confirmation that WAO can use a commercial
framework for the production of the AGW's year end
accounts**

From: John Baker [mailto:John.Baker@wao.gov.uk]
Sent: 01 November 2005 16:33
To: Gareth Lynn
Subject: accounts direction

Hi Gareth

Further to our meeting a couple of weeks ago I thought I'd just update you with the position regarding the accounts direction.

I have received confirmation from Nick Bailey, one of the main technical people with Treasury Dept, that the WAO can use a commercial framework for production of the year end accounts. I've copied in his email below for reference.

The FReM requires departments to produce an Operating Cost Statement, but allows agencies to prepare accounts in accordance with the Companies Act's formats. As ACW isn't a department, it is free to use a Companies Act format if this will give a truer and fairer picture of its activities. Do I take it that it has produced an Operating Cost Statement so far?

The accounts direction doesn't need to specify which format should be used as it says, in essence, "follow the FReM" which allows the use of Companies Act formats.

Does this help - pleased to discuss.

Nick Bailey
020 7 270 4535
20 Oct 2005

I hope this is of some use.

Thanks

John

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30/12/2010