Y Pwyllgor Cyllid / Finance Committee
FIN(6)-14-23 P2

Wales Audit Office

Audit findings report
year ended 31 March 2023

14 June 2023

RSM

Contents

Executive Summary

This report summarises our key findings in connection with the audit of the financial statements of Wales Audit Office in respect of the year ended 31 March 2023.

The scope of our work was communicated to you via our Audit Plan document. We believe that the audit approach adopted will provide Audit and Risk Assurance Committee with the required confidence that a thorough and robust audit has been carried out.

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing an unmodified audit opinion on the company's financial statements in line with the agreed timetable.

Risks and approach

We have carried out testing as planned on the risks identified during planning and draw your attention to the following key points for discussion:

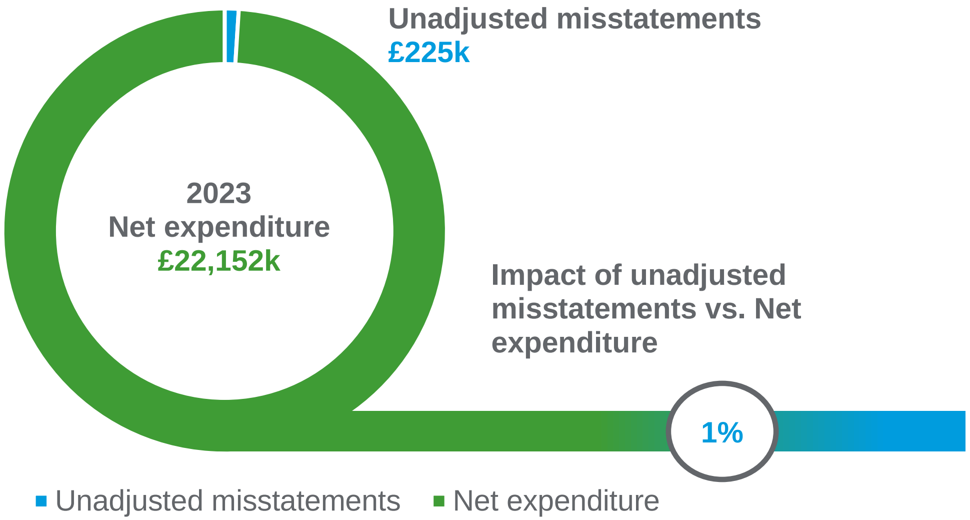
- Management override of internal controls
- Revenue recognition
- Adoption of IFRS 16
- Regularity

Final materiality

Materiality was confirmed at £453,000, using total expenditure incurred as the benchmark. Our materiality figure represents an effective rate of 2.0% of expenditure.

Unadjusted audit misstatements

We have identified potential audit misstatements of £225k which would have a 1% impact on the net expenditure for the year as highlighted below. A list of the unadjusted misstatements is included in the Appendix.



Risks identified at the planning stage

Risk	Description	Response	Findings
Revenue recognition – WIP and deferred income	Under the International Standards on Auditing, revenue is a presumed fraud risk. The recognition of income, WIP and deferred income is considered to be a significant risk due to the level of judgement involved in determining the stage of completion of an audit assignment and any provisions required.	We will: 1. Select a sample of projects that have commenced throughout the year, and test the revenue recognised with reference to the stage of completion of the assignment, to determine that the revenue recognition is appropriate and, consequently, whether the WIP and deferred income are appropriately stated. 2. Review correspondence with audit managers and discuss any relevant matters directly with the engagement manager. We will use this to establish the estimated costs to complete and any provisions required at year end, considering the impact of any time spent on the audit after the year end on these estimations. 3. Review assessments made in the prior financial period and compare the final total costs to the assessment made at year end, to assess the historical accuracy of estimates made in relation to revenue. 4. Evaluate projects that are reasonably expected to be concluded at a deficit and confirm that an appropriate provision has been recorded in the financial statements.	We have followed up on our sample of engagements selected during the 2022 audit. We have noted differences between the 2022 year end cost to complete assessment and the final costs incurred. Across our sample of engagements, additional costs to complete required at March 23 were £61k. These variances largely related to engagements which had just started at March 2022 and therefore the additional costs to complete were based on estimated costs at that point. Costs to complete assessments represent an estimate and therefore will always contain an element of judgement. We have reviewed the costs to complete for a sample of engagements at March 23. Due to the implementation of Hubplanner, the new time recording and resource management software, WAO were unable to calculate costs to complete by the same method that was used last year. This was because the future bookings for jobs were not yet complete within Hubplanner. Instead a different method was used for the majority of engagements where the % bust of the audit in the prior year was used as an expected %bust figure for the current year. In some cases the Hubplanner future resource figure was used for the provision however we noted some differences where this method had been used and we therefore recalculated the expected cost to complete provision for the whole population using the % bust figure for the equivalent engagement for the prior year with a judgemental misstatement of £225k (see Appendix). *Management response: We note the judgemental adjustment for the cost to complete of open projects but given that it is not possible to accurately calculate this amount, we do not propose to make the adjustment. Increased fees for 2023-24 along with the full implementation of our new resourcing and time recording system and improved processes to control audit budgets, mean that we are confident that the amount provided is sufficient to allow for any cost overruns on projects that are currently in progress.* We reviewed the April 2023 income recognised to confirm that there were no indicators of a material additional provision being required at year end. We have tested the reliability of the underlying time recording system and did not note any errors in our sample testing with the completeness or accuracy of the data. Where deficits are expected on audits, we have confirmed there are no errors in these calculations.

Management override of internal controls	In any organisation, there will be an extent to which management can bypass internal controls. By definition, there can be no controls in place over this risk. This is specifically stated in the International Standards on Auditing (ISA (UK) 240). Therefore, there is a risk that internal controls within the entity could be overridden by management, resulting in transactions or judgements arising which have not received appropriate approval or consideration, and for significant transactions outside the normal course of business to distort the reported results.	We will: 1. Review controls in place over journal entries and, using data analytics software and based on our risk assessment, test a sample of journals to ensure they are valid and appropriately supported. 2. Obtain an understanding of the business rationale of any significant transactions that we become aware of during the audit process which appear to be outside of the normal course of business or appear to be unusual given our understanding of the entity's operating environment. 3. Consider estimates and judgements made by management in the preparation of the financial statements and conclude on their appropriateness.	We have tested journal entries posted during the year on a sample basis, using risk analysis and data analytics to identify 'at-risk' transactions. This did not highlight any erroneous entries, or any items indicative of undue management bias. We have reviewed the significant estimates adopted in the preparation of the financial statements, such as those relating to provisions. We have not identified any areas where there appears to be indication of management bias.
Regularity	A statement on regularity must be included in the annual report in accordance with Schedule 1 of the Public Audit (Wales) Act 2013. We are required to report on whether expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.	We will: 1. Obtain an understanding of Schedule 1 of the Public Audit (Wales) Act 2013 and how WAO has translated this into controls, policies and procedures. We will assess the nature, design and effectiveness of this and based on our assessment of risks of material irregularities and noncompliance will undertake testing of controls and detailed testing of financial transactions 2. Undertake procedures on areas that we consider represent greater risk, by virtue of their nature, of impropriety of financial transactions. 3. Plan our work in order to ensure that we derive such evidence as appropriate to support the regularity conclusion from planned financial statement procedures, as well as having regard to propriety of transactions.	We reviewed the processes and controls in place and reviewed samples of transactions from the areas considered greater risk including board expenses, procurement policy and exit payments. We noted some minor areas for improvement from our work and these are reported in detail in our Regularity section on page 8. Our opinion on regularity is unmodified.

Adoption of IFRS 16	IFRS 16, as adapted and interpreted by the FReM, was effective from 1 April 2022. This removes the distinction between finance and operating leases and accounts for all leases as right of use assets with a corresponding lease liability. There is a risk that there may be misstatements due to: • Leases not being identified and omitted from the financial statements • Inappropriate assumptions used for estimates such as the rate implicit in the lease or the incremental borrowing rate Incomplete or inappropriate disclosures made on transition	We will: 1. Compare the transitional adjustments to prior year operating lease disclosures 2. Review bank transactions for recurring payments which may indicate unidentified leases 3. Review the transitional adjustments and supporting calculations, including assumptions regarding the incremental borrowing rates used. We will also recalculate the adjustments based on the lease agreements and perform sensitivity analysis on the interest rate used. 4. Review the disclosures made against the requirements of the standard	We have: 1. Compared the transitional adjustment to the FY22 operating lease disclosure to confirm all relevant leases had been included in the transitional adjustment 2. Reviewed recurring bank payments to confirm there were no additional leases which we were not aware of 3. Reviewed the workings provided and recalculated based on lease agreements for the relevant properties. The interest rate to be used is mandated by the FReM and we therefore did not complete any sensitivity analysis in this area. As part of this work we noted that there were some additional break clauses in the new Capital Quarter leases which had not been included in the IFRS 16 calculation. This has been updated in the accounts – see the Appendix for detail of the adjustment made. 4. We reviewed the disclosures made against IFRS 16 and the FReM IFRS 16 Leases: Application Guidance. We noted some minor omissions and amendments to be made, all of which have been updated in the accounts.

Regularity Audit

Issue	Response
Quorate of board meetings	
The Public Audit (Wales) Act 2013 states that in order for the board meeting to meet the Quorum requirement, the majority of members present at Board meetings must be non-executive directors (Schedule 1, part 7, section 28). During our regularity audit, we noted that at the September 2022, January 2023 and February 2023 board meetings, one or more non-executive member was absent. In the September 2022 and January 2023 meetings decisions were deferred to the following meeting however in the February 2023 meeting, in order to be quorate, employee board members recused themselves from any decisions, however they were still physically present during board discussions, leaving the meeting only for the decision and voting.	The Board's terms of reference make provision for a quorum to be met in accordance with the legislation. A pre-meeting check is made for expected member attendance to establish whether the meeting is expected to be quorate. If this is not the case, arrangements are made for an employee board member to step down from that meeting as a Board member and attend in an executive/observer capacity only, which happened during February 2023 as noted opposite. Previous legal advice on similar matters concluded that the requirement per the Act is for the majority of non-executive members to be “present” rather than “present and voting”. The advice recommended that moving forward, the Wales Audit Office updates its procedures to ask one or more employee members not to attend each meeting if needed, to ensure that there is a majority of non-executive members present. However, given employee board members were still physically present during the discussions, there is a risk that any decisions may be invalidated by the presence of employee members (although they did leave the meeting for the decision and voting). We recommend that in such instances, the relevant persons are not present where relevant. But this does not impact our regularity opinion.
Procurement	
We have noted that a Microsoft 365 license contract was entered into during the period. In line with the competition thresholds more than 3 tenders were sought and received however the final contract was not authorised by the ELT as required for a contract with a value of £50-£250k.	This is not in line with the procurement policy. We understand that as this was for Microsoft 365 there was no realistic possibility of this contract not being continued as Microsoft 365 is vital to the business and would require a long changeover process if WAO moved away from this, however this should have been approved by the ELT.
Creditors not paid within 30 days	
Public sector organisations are required to pay supplier invoices within 30 days of receipt. The year-end creditors listing contained 7 items that were older than 30 days.	While our financial statement and regularity opinions are unaffected by these items, we would recommend that transactions are review each month end to ensure each creditor is less than 30 days old.

Issue	Response
Policies The Travel and Subsistence Policy has not been formally reviewed since 2015 and was due for review in August 2021, which was delayed pending the outcome of the negotiations following the decision to remove the Travel Allowance. The Gifts, Hospitality & Entertainment Policy was also issued in February 2019 and due for review in February 2021 but has not yet been updated.	We would recommend that the policies are reviewed and updated if required, and we believe this is currently being actioned. Based on the results of our testing, it appears that the current policies are being applied as expected. We are not aware of any substantial matters which would indicate the policy requires specific changes.

Recommendations on controls

We have set out below recommendations on internal controls which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all internal control matters or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

Assessment	Issue and risk	
●	• Procurement	**Recommendations** • As part of our regularity work, we have noted that one item in our procurement sample was not approved as required by ELT. We understand that as this was for Microsoft 365 there was no realistic possibility of this contract not being continued however this should still have been approved by the ELT. We would recommend that staff training in this area is revisited, and that there is a periodic review of the contracts schedule to ensure the correct number of quotes were sought and that the contract was approved, with supporting evidenced retained. **Management Response** • Agreed. As stated above, not renewing this contract was not an option given the reliance of the organisation on Microsoft services – this is a contract that has been in place since 2005 and renewed as required. Due to oversight, the formal approval process was overlooked. In response our Financial Management Handbook has been updated to clarify where the responsibility for obtaining relevant approvals sits.
●	• Fee budgets	**Recommendations** • As part of our revenue work we have noted that fees are initially signed off by the Auditor General for the year, however in our testing we noted these fees were sometimes different in the audit plans issued to the bodies audited. This wasn't always communicated to finance who then continued to invoice and calculate abatement and cost to complete provisions based on the original fee. We would recommend that controls are put in place to make sure finance are notified of these changes in fees so they can invoice and provision correctly. **Management Response** • Agreed. Audit Managers will be reminded that any change to the fee after they have been signed off must be communicated to both the Business Unit and the Finance Team.

Assessment	Issue and risk	
Other control recommendation (amber)	• Hubplanner	**Recommendations** • WAO were unable to calculate costs to complete in the usual way due to the data not being available on Hubplanner. While the historical bookings had been moved across from MK the future bookings data was not complete meaning this couldn't be used for the basis of costs to complete. We recommend that this data is captured within Hubplanner so more accurate costs to complete can be calculated. We also recommend bringing in checks of the total audit budget and resource value booked in Hubplanner to identify audits which are not completely booked in Hubplanner. • There were also a number of reports noted which could be run in MK but could not be run in Hubplanner. We suggest that these reports are written into Hubplanner so data can be more easily exported. **Management Response** • Agreed. Phase 1 of Hubplanner implementation which was completed in November 2022 concentrated on ensuring that we could effectively capture actual time against projects. Phase 2, which is currently in train, is focussing on ensuring that the future resourcing functionality of the system works effectively – this will support future cost to complete exercises. Reporting requirements will also be considered as part of Phase 2.
Other control recommendation (amber)	• Time coding	**Recommendations** • We noted some instances in our work on revenue where time had been coded to the wrong audit code. We discussed this with management and this was largely where there were codes for multiple years for the same audit and time had been posted to the wrong year. • While this would usually be picked up by the manager on review of WIP at the end of the month we recommend that further controls are put in place to make sure time is not posted to the wrong job. **Management Response** • It would be very difficult to eradicate miscodings completely but we would expect these to be picked up as part of month end reviews by both managers and the Business Unit.

Assessment

- Significant control recommendation
- Other control recommendations

Other matters to be reported

Management judgements and accounting estimates

The following areas are considered to be the principal accounting estimates. The graphic below visually represents the impact (lower or higher) on the financial statements of a change in management's estimate. In overview, a reasonably possible change in estimate that has a low impact means that such a change will have limited impact on the financial statements. Conversely a reasonably possible change that has a higher impact, means that such a change can have a significant impact.

Estimates	Low impact		High impact
Provision for bad debts	●		
Revenue recognition – stage of completion			●
Dilapidations provision		●	
Depreciation and amortisation	●		

As part of our audit, we review the significant accounting estimates contained within the financial statements of the WAO. We note the following:

Costs to complete/work in progress
Our work indicates that the historical estimates of costs to complete are materially accurate, and that estimates made are an appropriate basis to determine percentage completion.

Dilapidations provision
These continue to be derived using latest available third-party surveyor reports, and there is no evidence that these are not an appropriate source of evidence to derive such provisions. Previous surveyor reports provided have not identified any significant issues that would necessitate a material increase in the value of the reported provision.

Receivable provision
Wales Audit Office has recognised a receivable provision of £77k in the current period, which is an immaterial amount. Therefore, no disclosure is made in the financial statements section "Key areas of estimate and judgement". The financial statements also consider the impact of IFRS 9 but conclude that any expected credit loss model is not relevant for the above-mentioned reasons.

Fixed asset depreciation/amortisation
Each asset has a Useful Economic Life over which it is depreciated/amortised. These policies are disclosed in the financial statements as expected.

Going concern

The financial statements are prepared on a going concern basis. The accounting policies contain adequate consideration of the reasons behind this; specifically, that Wales Audit Office works to annual funding arrangements by statute, and those resources are made available by the Senedd for the exercise of the Auditor General's functions. We have considered the 2023-24 Estimate and any matters identified during the course of our audit which may impact the going concern assessment. No material uncertainty has been identified.

Representations requested

In addition to those representation which we request on all audit assignments (http://www.rsmuk.com/standard-representations) we will be seeking no specific representations from the board

Update on matters communicated at the planning stage

Matter communicated	Update
Fees	We confirm that the fees charged during the year in respect of services performed are consistent with those contained within our Audit Plan submitted to you.
Independence	In accordance with International Standard on Auditing (UK) 260 “Communication with those charged with governance”, there are no changes to the details of relationships between RSM UK Audit LLP including its related entities and persons in a position to influence the conduct or outcome of the audit and Wales Audit Office and its connected parties that may reasonably be thought to bear on our independence, integrity and objectivity and the related safeguards from those disclosed in the Audit Plan.

This report has been prepared for the sole use of Wales Audit Office and must not be disclosed to any third party, or quoted or referred to, without our written consent. No responsibility is assumed to any other person in respect of this report.

APPENDIX

Accounting misstatements

A summary of the adjusted and unadjusted misstatements identified during the course of our work is set out below, analysed between misstatements of fact and differences in judgement.

We have not disclosed below those items that we consider to be “clearly trivial” in the context of our audit. For this purpose, we consider “clearly trivial” to be any matter less than £22,600 individually and in aggregate.

Adjusted

Adjustment	Type	Classification	Account	P&L £’000s	Balance Sheet £'000	Description
1	Adjusted	Reclassification	Accruals		194	Reclassification of March 23 NIC from Accruals to OTSS
			OTSS		(194)	
2	Adjusted	Judgemental	Admin expenses	35		Bad debt provision increased to provide for overdue debt from 2019 which has not yet been collected
			Bad debt provision		(35)	
3	Adjusted	Judgemental	Right of Use Assets		(354)	Update the IFRS 16 lease adjustment for the rent free periods in the Capital Quarter lease and to recognise the Abergele lease which had >12 months outstanding at the point of transaction (1 April 2022)
			Lease liability		356	
			P&L	(2)		
				33	(33)	

Unadjusted

Adjustment	Type	Classification	Account	P&L £’000s	Balance Sheet £'000	Description
4	Unadjusted	Judgemental	Revenue	225		Judgemental increase to the costs to complete provision based on a recalculation of all engagements in Deferred and Accrued income at year end using the prior year bust % of the equivalent engagement.
			Accrued income		(225)	
				225	(225)	

The cost to complete provision is both an estimate and a judgment as it is based on expected future bust amounts of engagements at year end. The unadjusted misstatement above was calculated based on the prior year bust % of the equivalent engagement to calculate the total expected costs for each engagement in WIP/Deferred income at year end. Management calculated costs to complete based on a similar method but for some engagements had used the cost data from Hubplanner which we found in some instances to require a further provision based on the actual costs post year end. We have therefore included an unadjusted audit misstatement based on the difference between these two methods. This misstatement is judgemental as we have based our calculation on the prior year bust % as an indication of the expected current year cost to complete which is an estimate of the expected provision. The misstatement is also below our materiality levels and we therefore do not require the amount to be adjusted in the accounts.

Communication of audit matters to those charged with governance

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing, materiality and expected general content of communications including significant risks and key audit matters	●	
Confirmation of independence and objectivity	●	●
Significant matters in relation to going concern (if any)		●
Views about significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures (if any)		●
Significant findings from the audit		●
Significant matters and issues arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit (if any)		●
Unadjusted accounting misstatements and material financial statement disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter (if any)		●

ISA (UK) 260, as well as other ISAs (UK), prescribes matters which we are required to communicate with those charged with governance, and which we set out in the table here.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while the Audit Findings presents key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Financial statement disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the FReM 2022-23.

The following disclosure matters were brought to your attention and subsequently adjusted/not adjusted in the revised financial statements.

Unadjusted disclosures

Governance Report

6.5.8a Salary and allowances should be disclosed for all board members. For employee board members only the allowances in relation to board member duties are disclosed.

6.4.8e Include actions taken to address internal control weaknesses

Performance Analysis

5.4.4aii) provide outturn performance data against each indicator used to monitor performance with prior year comparative data

5.4.4j) Trend analysis / explain performance using KPIs

IAS 7 Reconciling between the opening and closing balances of liabilities arising from financing activities

Addjusted disclosures

The following points from the FReM were added to the annual report and accounts:

5.3.3g requires the performance overview to explain:

- how these risks have affected delivery of priority outcomes and objectives,
- how they have changed
- how they have been mitigated
- emerging risks affecting future performance.

3.4.2 It is best practice to show these KPIs as trends

5.4.4b Further detail on the items included in 5.3.3g

5.4.4f Explanation of the purpose of performance analysis

5.4.4g detail on structure of the organisation

5.4.4k further detail on future plans

6.4.8a Adding the reviewing the effectiveness of risk management and internal control systems to Accounting Officer responsibilities.

IFRS 7 35G Disclose the basis of inputs and assumptions in the “expected credit loss provision” estimate, including how forward looking information has been incorporated and significant changes in assumptions.

Financial reporting updates

Important updates

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

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

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Our Report is prepared solely for the confidential use of Wales Audit Office and solely for the purpose of explaining our audit approach, the findings of the audit, and other reportable matters, forming part of the ongoing communications we are required to make under International Standard on Auditing (UK) 260 – Communication of audit matters with those charged with governance. Therefore, the report may not, without our express written permission, be relied upon by Wales Audit Office for any other purpose whatsoever, be referred to in whole or in part in any other external document or made available (in whole or in part) or communicated to any other party. RSM UK Audit LLP neither owes nor accepts any duty to any other party who may receive our Report and specifically disclaims any liability for any loss, damage or expense of whatsoever nature, which is caused by their reliance on our Report.

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