



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Auditor General's

Annual Report & Accounts 2010-11

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This annual report and accounts has been prepared in accordance with paragraph 13 of Schedule 8 of the Government of Wales Act 2006 in a form directed by the Treasury.

Highlights

New Auditor General for Wales appointed

Issued reports on the accounts of approximately 840 public bodies in Wales

Published 12 national reports looking at value for money in key areas of public spending, 28 annual improvement reports on local government authorities and carried out structured assessments at all health boards and NHS trusts

Reduced fees between 2009 and 2011 in cash terms by £1.27 million or 8.0 per cent

Consulted on a new strategy for more cost-effective certification of grant-funded expenditure

National Fraud Initiative resulted in public bodies detecting and preventing fraud and error totalling £7 million

Launched 'timely financial reporting' pages of our Good Practice Exchange

Hosted an NHS Audit Committee Chairs' Development Day and a Grey Fleet Seminar

Signed a strategic agreement with the main inspection bodies in Wales to enhance joint working

Achieved overall savings of over £1 million through cost reduction and greater efficiency, and re-accreditation at Level 3 of the Green Dragon Environmental Standard

Established a new structure of three governance committees to exercise oversight respectively of remuneration, resources, and audit and risk management within the Wales Audit Office

Foreword by the Auditor General for Wales



This is my first annual report as Auditor General for Wales. For the first six months of the year covered by this report, the Wales Audit Office was under the leadership of my predecessor Gillian Body. I should like to thank Gillian and the staff of the Wales Audit Office for the commitment and unswerving professionalism that they have shown. I will not pretend that it has been an easy year, but it has been a very productive one.

Having been subjected to a lengthy and detailed level of external scrutiny, the Wales Audit Office has emerged both stronger and better equipped to serve the people of Wales. This annual report and accounts demonstrates very clearly the financial discipline and commitment to transparency which now underpins the organisation. My accounts also demonstrate the efforts we have made over the year to ensure our financial position is both properly reflected and soundly based.

The new governance arrangements that I have introduced aim to ensure that whoever holds the office of Auditor General, they will be subject to a rigorous and robust framework of checks and balances. I also welcome moves by the Welsh Government to enshrine this principle in legislation. As I said, it has been a productive year for us. A year in which Wales has faced many challenges and in which it has begun to rethink itself as a law-making nation and has elected a Fourth Assembly. The Wales Audit Office is able to provide an overview of all public spending and we have contributed significantly to the national debate on effective and efficient public service provision.

Financial audit is at the heart of the Wales Audit Office's work. It has provided assurance and helped to promote improvement across all sectors.

In health, we have informed those charged with the restructuring of local health bodies, helping the new organisations to learn from the experience of their predecessors. We have also introduced a more structured and consistent model of assessment in both health and local government which has enabled a greater degree of informed and constructive comparison in our reporting to the public and to other stakeholders. From our improvement assessments in local government, covering councils, fire authorities and national parks, we have drawn conclusions about the preparedness of those authorities to deal with stringent constraints.

We have published value for money reports covering topics as relevant and diverse as major transport projects and hospital catering. Alongside this work, we have involved ourselves with promoting efficiency and innovation. We have worked alongside public bodies to support them in taking properly considered and well-managed risks, always with a keen eye to providing assurance that public money is being properly and wisely spent.

Our approach reflects my determination that we should add value by offering commentary to inform decisions as they are taken, as well as providing appropriate post-event review. It also reflects my resolve to be proportionate in the work we do. Public bodies face pressures on their time and resources from many quarters. Independent public audit that 'tells it like it is' is important for healthy democratic government, but it must always ensure that the demands it makes are in proportion to the benefits for the people of Wales. Targeting our work where it makes greatest impact and seeking new ways to derive robust assurance from other existing and complementary sources will continue to be my aim.

As we turn to the focus of our work for future years, my analysis of key risks and opportunities facing public bodies underpins my plans for the Wales Audit Office. I will also continue to flex our programme to reflect changing risks and opportunities. In all our activities, I am determined our work will fulfil my obligation to the people of Wales to provide them with independent robust information on how their money is spent. We will promote good governance, strong financial discipline and continuing improvement in service quality even in these difficult times. And we will apply the same rigorous standards to our own work.



Huw Vaughan Thomas
Auditor General for Wales
31 August 2011

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About us





Making public money count



The Auditor General and the auditors he appoints in local government are the statutory external auditors of most of the Welsh public sector. They are responsible for the annual audit of the majority of public money spent in Wales, including the £14 billion of funds that are voted to Wales annually by the Westminster Parliament. Elements of this funding are passed by the Welsh Government to the NHS in Wales (over £5 billion) and to local government (nearly £4 billion).

The Auditor General and his staff together form the Wales Audit Office, which was established in April 2005. The Auditor General is the Accounting Officer for the Wales Audit Office and is personally responsible for its overall organisation, management and staffing as well as its procedures in relation to financial and other matters.

The staff of the Wales Audit Office deliver approximately two-thirds of our annual audit work. The remainder of our work is contracted out by the Auditor General to private sector accountancy firms (currently these are Grant Thornton UK LLP, KPMG Europe LLP, PricewaterhouseCoopers LLP, UHY Hacker Young, BDO Stoy Hayward and Mazars).

What we do

The aim of external audit is to hold public service providers to account, provide insight into how they are working and help them to improve. In undertaking our work, we aim to answer three main questions:

- How are public services performing, both financially and operationally?
- What are the factors that shape that performance?
- What can service providers do to improve?

The Auditor General has issued a Code of Practice. It prescribes the way in which auditors of local government bodies are to carry out their functions, and embodies best professional practice. The Auditor General has voluntarily expanded and adopted this code so that it also applies to his audit work in health and central government.

Our main objective is to help make the most of public money – ‘making public money count’. Four principles underpin our work. Being:

- public focused;
- independent;
- proportionate (providing just the level of audit that is needed); and
- accountable

Who we work with

Our role is to provide independent assurance that public money is being spent in people’s best interests. We work with:

- The people of Wales
- The National Assembly, chiefly through its Public Accounts Committee
- The Welsh Government
- Public service providers in Wales and their representative bodies





**Our work
this year**

Financial audit

Each year, we deliver a broad and varied programme of external audit work. It includes audits of accounts, value for money examinations and studies, local government assessments, certification of grant claims, anti-fraud exercises and granting approvals to the Welsh Government to draw down funds.

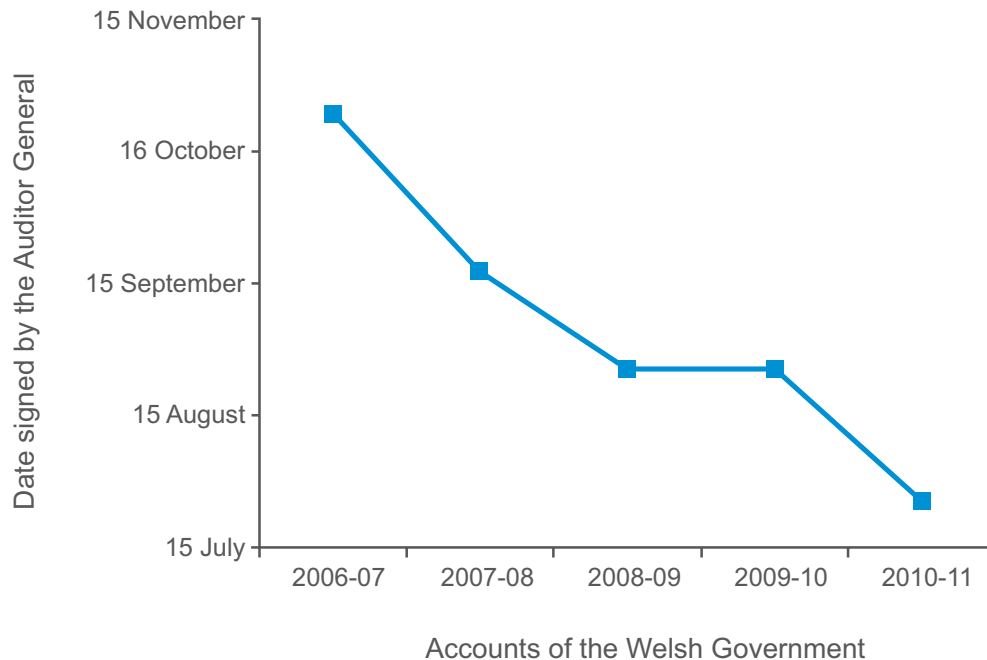
In this section, we provide an outline of the audit work we delivered last year and highlight some of the impact that it has had.

The focus of our financial audit work is auditing accounts and providing assurance to the public about the stewardship of public money. We thoroughly examine accounting and other records and provide an 'opinion' on the accuracy of the accounts. In 2010-11, the Auditor General and his appointed auditors issued reports on the accounts of approximately 840 public bodies in Wales. These included the Welsh Government and its sponsored bodies, NHS trusts and local health boards, councils, fire and rescue authorities, national park authorities, police and probation authorities and trusts, pension funds and community councils.

Financial audit reports include a formal opinion on:

- whether the financial statements give a true and fair view of, or present fairly, the income and expenditure and the state of financial affairs of the body;
- whether the financial statements have been prepared properly in accordance with relevant legislation, directions and accounting standards; and
- the regularity of the transactions, at bodies where this is required.

Exhibit 1 Improvements in the timeliness of our financial reporting on the accounts of the Welsh Government



The most obvious public impact of the work of the financial auditor is when things go wrong, leading the auditor to issue a 'qualified opinion' on the accounts. Such events are uncommon. Difficult and contentious issues are avoided by early engagement between management and auditors – making our impact less obvious but no less significant.

In 2010-11, we did not need to qualify any audit opinions to reflect incorrect accounting practice by public bodies in Wales. However, auditors often suggested amendments to bodies' draft accounts, to ensure they were presented correctly, and made many recommendations for improvement to those responsible for the management and oversight of those bodies. This year we have also made some statutory recommendations and responded directly to electors' questions and other information brought to the attention of the auditor.

New accounting and disclosure requirements under International Financial Reporting Standards and the introduction of 'clarified' International Standards on Auditing are continuing to put increased pressure on auditor workloads. We continue to mitigate the impact on audited bodies by working more efficiently, rather than raising our fees.

If financial management in the public sector is to improve, there is a need to report financial results as soon as possible during the year and after the year end. This helps public bodies to act quickly to improve resource management, decision making and risk management. **Exhibit 1** shows how we have achieved and sustained more timely financial reporting on the accounts of the Welsh Government over the last five years.

Performance audit

National reports

During 2010-11, we published 12 national reports which looked at value for money in key areas of public spending, often from a 'whole-system' or 'cross-cutting' perspective, where public spending is examined irrespective of who delivers the services. This included looking at service delivery across the Wales-England border, where appropriate.

The work we did and the impact of three of these reports is described in the following section.

The National Assembly's Public Accounts Committee examined our reports as part of its role of ensuring that proper and thorough scrutiny is given to Welsh Government expenditure. The committee made specific inquiries into issues of interest or concern arising from our reports and reported and made recommendations on its findings.





Major Transport Projects

This report highlighted the increasing cost of recent major transport projects in Wales. In particular, the report pointed to the £592 million final cost of 18 projects completed between 2004 and 2010, compared with earlier estimates of £366 million. It also highlighted the significant cost of some of the projects planned for the rest of this decade, such as the A465 Heads of the Valleys Improvement.

The report examined the Welsh Government's procedures for managing projects under its direct control, specifically those projects on the *Trunk Road Forward Programme*. It also considered the way in which the Welsh Government has, since 2001-02, overseen the delivery of local authority managed major projects supported by its Transport Grant. The report made extensive use of case study material to highlight the common issues affecting project delivery, including extra measures to mitigate environmental impact, unforeseen work and higher-than-expected cost inflation.

The report generated a lot of media interest and was warmly welcomed by the National Assembly's Public Accounts Committee.

In his written and verbal evidence to the Public Accounts Committee the then Acting Director General for Economy and Transport at the Welsh Government described the report as 'comprehensive' and one 'from which we can learn lessons in relation to hundreds of millions of pounds' worth of public sector expenditure'.



Capital Investment in Schools

This study found that, although there had been improvements to the schools estate, there was a long way to go before all schools in Wales would be fit for purpose. The report made recommendations to the Welsh Government, the Welsh Local Government Association (WLGA) and to local authorities. It indicated how they could improve value for money from the increasingly limited capital available to invest in school buildings.

Our report said that, before 2009, the Welsh Government's funding to improve school buildings was not targeted well enough, with insufficient information to determine priorities and too little evaluation of the benefits of earlier investment. The concept of 'fitness for purpose' had also not been defined clearly, so local authorities were uncertain about how much they needed to spend. Since 2009, joint work between the Welsh Government and the WLGA had begun to strengthen the planning and management of capital investment in schools.

We presented the report to the National Assembly, and its Public Accounts Committee held an inquiry which took evidence from senior Welsh Government officials and reported in December 2010, making further recommendations. We will monitor the Welsh Government's response to these recommendations.

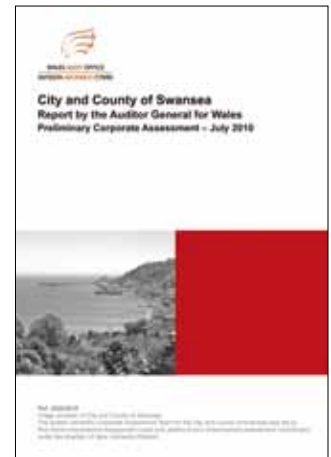
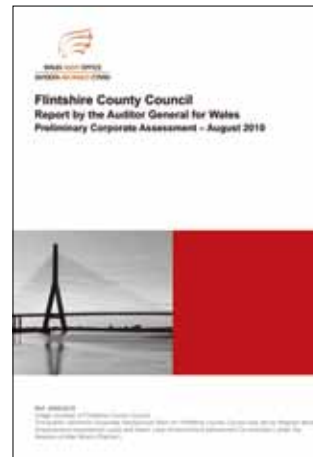
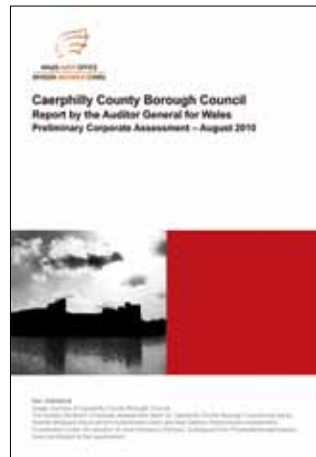
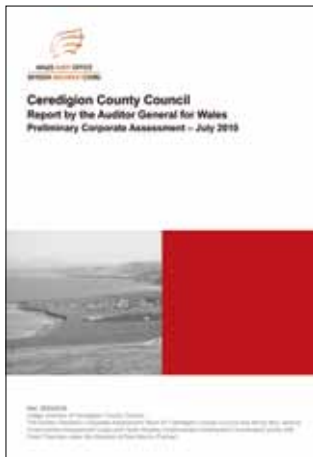


Hospital Catering and Patient Nutrition

This report was based on local audits at each of the seven health boards and the Velindre NHS Trust. We examined all aspects of catering and nutrition for patients, from planning and production of meals, through to serving food to patients on the ward, at a sample of wards in every major hospital in Wales. We also collected the views of some 700 patients to inform our findings. We found that Welsh hospitals had made some important improvements to their catering services since 2002 and that overall patient satisfaction with hospital food remains high.

However, we found that there are problems with the way patients' dietary needs are identified and with the nutritional assessment of menus. We also found that some patients who need help to eat do not always receive it. Our report identified the need for a clearer focus on service costs and action to reduce the unacceptably high levels of food waste on some wards.

We have highlighted what the Welsh Government and NHS bodies need to do and are helping them to develop materials to inform patients about what they can reasonably expect from hospital catering and patient nutrition services. Our checklist for NHS board members is helping them to strengthen assurance and monitoring processes and we will be supporting the spread of good practice by holding a shared learning event later this year for key groups of staff from across the NHS.



Local government improvement assessments

The Local Government (Wales) Measure 2009 came largely into force in April 2010. It requires the Auditor General to carry out an 'improvement assessment' at each county and county borough council, fire and rescue authority and national park authority every year. This work includes an audit of whether the authority has discharged its improvement planning and performance reporting duties.

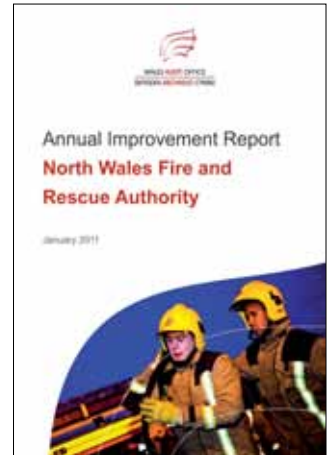
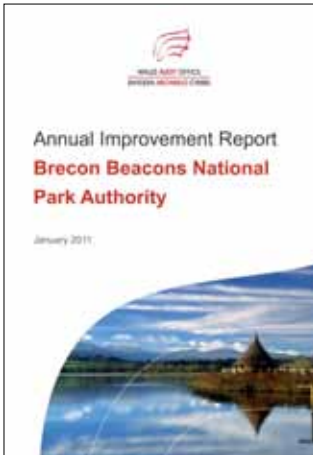
Our new approach to performance audit is underpinned by a greater focus on assessing how authorities are planning and working to improve outcomes for the public. We have introduced a more consistent assessment framework that allows a better understanding of authorities' relative strengths and weaknesses and facilitates comparisons where appropriate.

In the first year the Auditor General needed to establish a general picture of the key aspects that support improvement in authorities. We undertook preliminary corporate assessments with a focus on each authority's improvement plan, its improvement objectives, and the authority's broader arrangements to help it improve. We issued 28 reports between July and September 2010 which provided information about the authorities' strengths or weaknesses in relation to their governance and management.

From our corporate assessments we produced a briefing paper that gave an all-Wales perspective on how councils were responding to the current financial challenges. The briefing contained 13 short case studies to highlight examples of good practice that might be of interest to other authorities.

The key messages from the all-Wales briefing paper were:

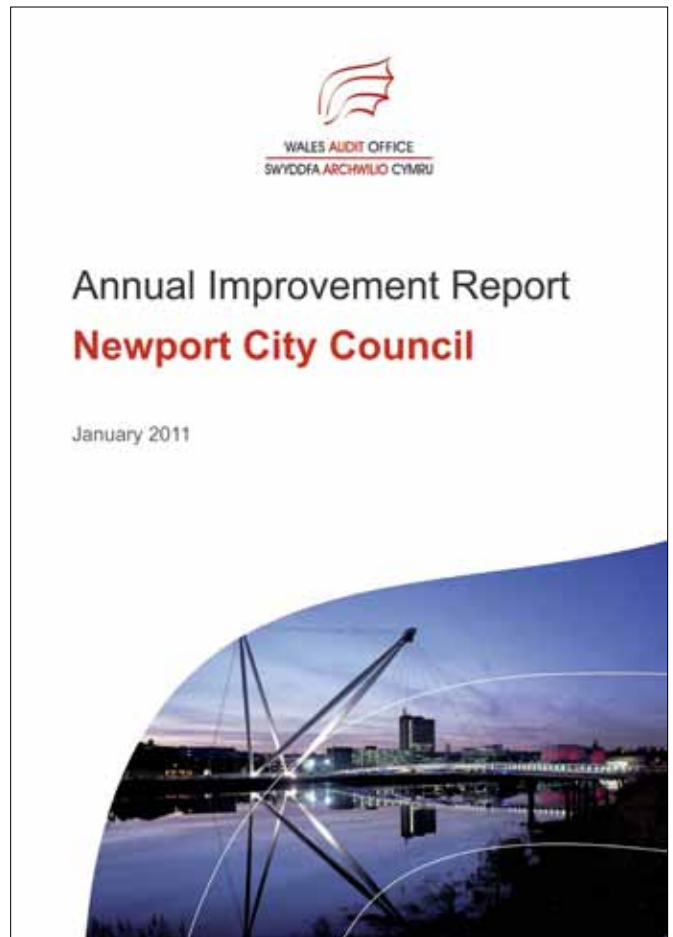
- most councils are making reasonable progress with financial planning for budget reductions but a minority have considerable progress to make;
- workforce planning is underdeveloped and represents a major risk as councils reduce staff numbers without a well-evidenced strategic approach;
- collaboration is gathering pace in response to the financial challenges, but there is a lack of evidence about cost and the impact for citizens; and
- councils generally do not yet have the performance information they need to help understand and manage the impact of reduced funding on citizens.



In the first year, we also did some performance assessment work at each authority to establish a baseline to help us assess future improvement. The Auditor General published 28 annual improvement reports, written for the public, that included summaries of all relevant work by other inspectorates and regulators.

We continue to carry out corporate and performance assessment work throughout the year feeding back findings to each authority as work is completed.

In early 2011, the Auditor General consulted with local government on proposals for moving to a more proportionate, risk-based programme of work. Our future work will be locally tailored and designed within a common framework, to address concerns, fill gaps in information and look at areas that authorities particularly want reviewed. The Auditor General is also keen to encourage greater peer involvement in our assessments. His aim is that robust self-assessment and external scrutiny should make complementary contributions to the overall picture, and he will be discussing how this can be achieved with the Welsh Local Government Association and others.





Corporate Governance Special Inspection, Isle of Anglesey County Council

Our 2009 corporate governance inspection at the Isle of Anglesey County Council found that the Council had a long history of not being properly run which left it poorly placed to meet future challenges. The Minister for Local Government and Social Justice appointed an Interim Managing Director to lead the Council's staff and a Recovery Board to oversee the Council's implementation of the recommendations of the inspection report.

Between October 2009 and late 2010, the Council made some progress. However, after further political instability, on 16 February 2011 the Minister requested that the Auditor General should conduct a further inspection. An experienced Wales Audit Office team that included the Auditor General himself and a peer assessor undertook the inspection and published their report on 16 March 2011, exactly one month after the Minister's request. The report concluded that Welsh Ministers' intervention in 2009 had not succeeded in producing a sustainable recovery from the Isle of Anglesey County Council's long history of weak governance, and that stronger intervention was necessary.

Welsh Ministers accepted our recommendations and appointed five commissioners to whom the Council's executive functions were transferred. They were in place and at work in Anglesey by 4 April 2011. It is too early to tell whether this further intervention will lead to sustainable change that enables the Council to function effectively under the leadership of its elected members, but we continue to monitor and report on progress.



Police authority audit

In recent years we have developed a more streamlined scrutiny system for police authorities by working together with Her Majesty's Inspectorate of Constabulary (HMIC) to co-ordinate our work more effectively.

In July 2010, the Audit Commission, HMIC and the Wales Audit Office published a joint report on *Sustaining Value for Money in the Police Service*, which covered England and Wales. We subsequently produced an all-Wales report which highlighted areas where Welsh police authorities could make savings such as better workforce deployment, changing the workforce mix and reducing management costs. We also helped to produce a range of self-assessment tools designed to help police services to improve value for money without adversely affecting public safety.

We are continuing to work with HMIC and looking to provide assurance that transitional arrangements for the new police accountability structures run smoothly.



Local health work

The work on *Hospital Catering and Patient Nutrition* mentioned earlier was part of a full programme of local performance audit work at health boards and NHS trusts in Wales.

During 2010, auditors carried out 'structured assessments' of NHS bodies' arrangements to secure efficient, effective and economical use of resources. We examined key aspects of NHS bodies' governance and financial management and key activities such as the development of strategic plans, workforce planning, partnership working and user engagement. We acknowledged the good progress most NHS bodies had made in developing their corporate governance arrangements following NHS re-organisation. We also highlighted the areas where more work was needed, most notably in developing robust service, workforce and financial plans to underpin their overarching five-year strategic plan. Our work in 2011 will review the progress that is being made, linking explicitly with NHS bodies' self-assessments of governance and accountability as part of the new standards for healthcare.

Another significant performance audit examined the impact of amendments made in 2003 to consultants' contracts in Wales. We reviewed job planning arrangements for consultants and in most NHS organisations we were able to highlight significant opportunities for improvement. We will follow up progress and later in 2011 we will examine NHS bodies' approaches to developing sound models of clinical leadership and engagement.

We also examined how effectively NHS bodies were using their operating theatre capacity and whether progress was being made in increasing day surgery rates. This work was undertaken in partnership with the Audit Commission, allowing us to compare performance in Wales with NHS trusts in England.

At each NHS body, auditors also examined risks specific to the NHS bodies in question. A good example is our review of the arrangements to manage prescribing in Hywel Dda Health Board. This work highlighted the need to do more to improve the safety and cost-effectiveness of prescribing practices at the interface of primary and secondary care. As well as providing a clear focus for improvement for the Health Board, we have shared our findings with the national programme board for medicines management so that messages from the audit can be shared more widely.

Grants and approvals

Certification of grant claims and returns

Grants are a key source of funding in Wales, particularly for local authorities. Since 2005, there have been significant and widening differences between Wales and England in grants policy; in Wales, much more use is made of grants as a funding mechanism.

All grant funding comes with specific terms and conditions to help ensure that the funds are spent on the intended purpose. Non-compliance with conditions may result in grants having to be repaid, with a potential loss of future funding.

If requested to do so, the Auditor General must make arrangements for certifying claims and returns in respect of grants paid or subsidies made to public service bodies. In 2010-11, we certified 38 local government schemes, worth some £2.8 billion and involving around 800 individual claims.

Our auditors' work provided independent assurance to both the awarding bodies and the recipient authorities that the grant funds provided were used correctly. We 'qualified' or adjusted (by more than £10,000) 40 per cent of these claims in 2010-11, generally as a result of a lack of robust evidence to support the claimed expenditure or because the claims were incorrectly compiled.

For the Welsh Government and its sponsored bodies, we also certified European structural funds claims, with a total claim value of around £310 million for the year. As spending accelerates in the remaining years of the current European funding programme, both the number of claims and the value certified will increase significantly.

We look to support our audited bodies by helping them understand the often complex risks involved with grants, such as compliance with EU State Aid Regulations, and to improve their management and administration of the funds awarded. We have good links with the Welsh Government's new Centre of Excellence Team for better grants management and have run workshops across Wales for grants project officers. We have also developed a *Grants Management* module within the Good Practice Exchange section on our website: this looks at the whole grants lifecycle and brings together the differing perspectives of funders, bidders and recipients and their auditors.

In early 2011, the Auditor General consulted on his new strategy for more cost-effective external audit certification of grant-funded expenditure throughout Wales.

Granting of approvals to draw from the Welsh Consolidated Fund

The Welsh Consolidated Fund (WCF) is the main conduit for the receipt and distribution of money for the Welsh public sector. The vast majority of the money paid into the fund is provided by the UK Government, as authorised by the Westminster Parliament. The Auditor General's approval is needed for all payments out of the fund. This entails checking that proposed payments are in accordance with legislation and, where applicable, National Assembly budget motion authority.

The sums of money involved are large – over £1 billion a month during 2010-11 – and all requests to draw from the WCF must be processed promptly and accurately. We invariably process WCF requests on the same day that they are received and deal with any discrepancies in requests as a priority.



Anti-fraud and other data matching exercises

The National Fraud Initiative

In May 2010, the Auditor General published the findings of the National Fraud Initiative (NFI) 2008-09. Every two years, data is matched across organisations and systems in order to help public bodies identify potentially fraudulent or erroneous claims and transactions. All unitary authorities, police, fire and rescue and probation authorities and NHS bodies in Wales participated in NFI 2008-09, and the Welsh Government, the National Museums and Galleries of Wales and the Wales Audit Office itself also participated on a voluntary basis.

The Auditor General's report found that the NFI resulted in Welsh public bodies detecting and preventing fraud and error totalling almost £4.5 million. Since publication this figure has risen to £7 million. The frauds identified included false claims for housing benefit, public sector pensions and council tax discounts. The exercise also resulted in the cancellation of 1,390 blue badge parking permits and 4,296 concessionary travel permits where there was no ongoing eligibility. The exercise resulted in 54 individuals being prosecuted for fraud offences.

The Auditor General recently released the data matches for NFI 2010-11 to participating Welsh public sector bodies, and these matches are currently being reviewed and investigated.

National Duplicate Registration Initiative

In 2010, the Auditor General ran the National Duplicate Registration Initiative across Wales. This exercise was aimed at identifying instances of patients being registered at more than one GP practice, people who had died but were still registered with an NHS practice and asylum seekers removed from the country still registered with an NHS practice. The NHS provides funding to GP practices based on the number of registered patients so removing inappropriate registrations can lead to significant savings. The review and investigation of data matches by the Welsh NHS is ongoing.



Working with others to share learning

Engagement with the Efficiency and Innovation Programme

Following on from our landmark report, *A Picture of Public Services*, published in March 2010, the Wales Audit Office has had an involvement in the pan-public sector *Efficiency and Innovation Programme*. During 2010-11, the Auditor General attended meetings of the Efficiency and Innovation Board, chaired by the Minister for Business and Budget, to provide information to support real time discussions but, of course, standing back from any decision making. We also had staff representatives sitting in a similar capacity on each of the seven boards that looked at specific areas to improve services and cut costs.

As the programme has developed, we have provided information to those leading the programme on avoiding the pitfalls that we and other audit agencies have identified with large-scale efficiency savings programmes, and we have also contributed to developing a more robust measurement framework for the programme.

This timely input, drawing on our audit evidence and experience, has helped to strengthen the programme and the potential impact it can have in enabling public services to manage with less.

We have tailored some of our work to respond to the issues that are emerging from the programme. For example, we have aligned the focus of our Good Practice Exchange with the projects on managing staff sickness absence and improving the energy efficiency of public buildings.

We are conducting further research on the issues highlighted by our *A Picture of Public Services* report and the Auditor General will be publishing a follow-up later in 2011.





NHS Audit Committee Chairs' Development Day

In September 2010, the Auditor General held an inaugural development day for the Audit Committee Chairs of the Welsh NHS bodies. The event focused on improving the effectiveness and contribution to good governance of these important committees.

Those present were challenged to reflect on how well their own committees were performing and to explore common issues and challenges. Our staff facilitated the day, using case study material to prompt debate and to encourage self-reflection.

The event received excellent feedback from all participants and the Auditor General is committed to arranging further events.

'The whole seminar was really useful, the speakers were fantastic and covered everything in their talks, gave suggestions and ideas for solutions – brilliant.'

'Presentations were jargon free, with simple easy to understand information and guidance.'

Quotes from Grey Fleet conference delegates

Grey Fleet Seminar

'Grey fleet' is the term used to refer to private vehicles used by staff for business purposes. Each year, across the Welsh public sector, the grey fleet travels over 100 million miles at a cost of over £50 million, emitting over 20,000 tonnes of CO₂.

Recent legislation such as the Corporate Manslaughter Act requires employers to do more to ensure that all staff are safe to drive and their vehicles are roadworthy and insured for business use.

We held our Grey Fleet Seminar in October 2010, providing information from our wealth of experience from across the Welsh public sector on practical and proven ways to reduce costs, whilst securing environmental and health and safety benefits.

The seminar highlighted examples of good practice and allowed time to discuss and share learning. Delegates took away practical ideas on how to reduce costs and carbon emissions and also increase the safety of staff.

The **Good Practice Exchange** **Y Gyfnewidfa Arfer Da**



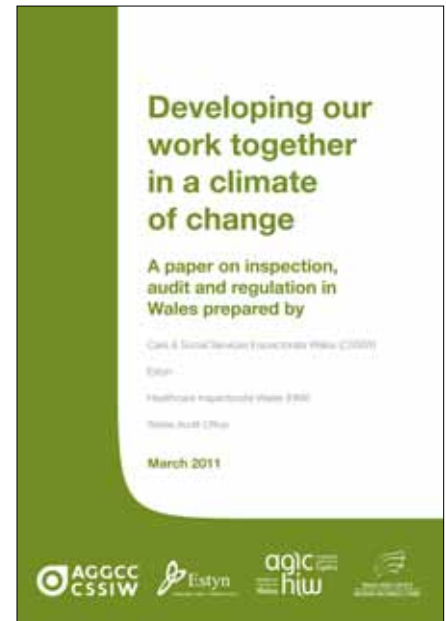
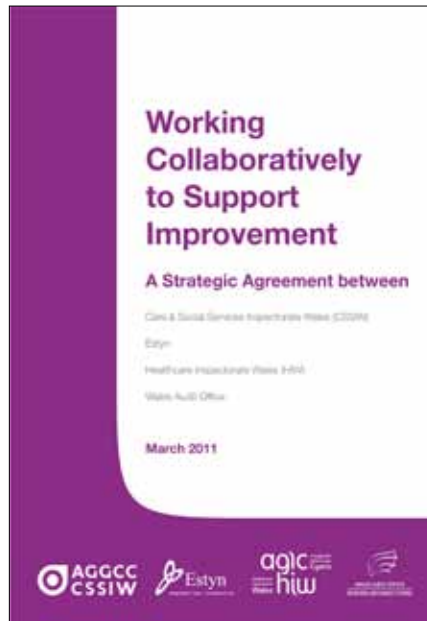
Identification and transfer of good practice

One of the methods by which the Wales Audit Office promotes improvement in public services is through the identification and transfer of good practice. Our Good Practice Exchange (GPX) is a web-based resource, freely available to anyone. We also deliver targeted face-to-face activities, typically shared learning seminars, which enable the rapid exchange of knowledge and learning between people from across the public services.

During 2010-11, our work was largely focused on upgrading the content of the GPX, including the addition of case studies from our study work. The case studies are the most frequently visited area of the GPX. Our good practice work is enhanced by our involvement in goodpracticewales.com, a web portal which acts as a single access point to search the websites of member organisations. These include the National Leadership and Innovation Agency for Healthcare, the Welsh Local Government Association, Public Service Management Wales and the Social Services Improvement Agency. We have taken a key role as a founder member in developing this website, which is gaining prominence across Welsh public services as a knowledge sharing facility.

The 'timely financial reporting' pages of GPX were also launched during 2010-11 with a focus on supporting improvements in resource management, decision making and risk management as well as supporting public bodies in their response to legislation which brings forward financial reporting deadlines.

Joint working



We are committed to working with and building on the existing co-operation between the UK national audit agencies to enhance the efficiency and effectiveness of public audit, to provide a strategic focus on issues cutting across our work and to develop broadly consistent approaches to public audit. We work with colleagues at Audit Scotland, the Northern Ireland Audit Office, the Audit Commission and the National Audit Office on joint projects and to share information and knowledge. For example, we work with other UK audit agencies to review each others' financial audit work and performance audit reports as part of our quality assurance approach.

We also work closely with the main inspection and regulatory bodies in Wales, and on 25 March 2011, the Auditor General signed a strategic agreement to enhance joint working.

The four signatory bodies – Care and Social Services Inspectorate Wales, Estyn, Healthcare Inspectorate Wales and the Wales Audit Office – also launched a joint paper on inspection, audit and regulation.

The paper *Developing our work together in a climate of change* outlines how the four organisations are making progress in co-ordinating and where appropriate, jointly delivering their work.

The paper recognises the strength and benefits of collaboration to date and notes some recent developments. These include the appointment of joint project staff to support the development of joint working between the four organisations, and strengthened information sharing processes.

The strategic agreement demonstrates the commitment of all of the inspection, audit and regulation bodies to further develop the joint working arrangements already in place and to collaborate more effectively and efficiently in the future. The agreement is part of a framework of joint working activities that is being developed by the four organisations. The aims of this work are to support better co-ordination of external review activity and to develop further the existing arrangements for sharing knowledge and information.

International work

From time to time we represent Wales on the international stage in relation to our work. The Wales Audit Office is established as a credible public sector audit agency with skills that are transferable to other countries.

Our international work also provides the opportunity to develop our knowledge of accountancy and audit techniques and acquire skills that are necessary to deliver our work. But, we are mindful that all such activities should support our business strategy, should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

During the year delegations from a number of overseas public sector entities visited the Wales Audit Office in order to learn about governance arrangements in Wales and our approach to public audit and gave us an opportunity to learn from them.

Accounting and auditing standards are now organised on a global basis. During 2010-11, we responded to seven consultations on those standards, helping to shape the future development of both accountancy and public audit on the wider stage.

Responding to issues that have been brought to our attention

Correspondence from the public, elected representatives and others that raises concerns about public business can inform our work programme by identifying issues for further investigation. It is our policy to respond to public concern promptly, in a fair, objective and professional manner.

The Public Interest Disclosure Act (PIDA) came into force in 1998 to protect employees who want to raise a concern about something happening in work in a diligent manner. Under PIDA, the Auditor General and the auditors he appoints in local government are recognised as 'prescribed persons' who can receive disclosures from individuals employed by audited bodies in respect of the proper conduct of public business, value for money, fraud and corruption in relation to the provision of public services.

The Auditor General also reports to the Serious Organised Crime Agency any instance of dealings in the proceeds of crime (money laundering) that he or his staff encounter during the course of their work.

In March 2010 we published an audit report on Plas Madoc Communities First Partnership.

The partnership at Plas Madoc was an independent body receiving grants from the Welsh Government. A third party raised concerns about the governance and stewardship of the partnership with the Welsh Government, and subsequently with the Auditor General. This resulted in a joint audit by the Auditor General and Welsh Government internal audit.

The audit found significant weaknesses in governance arrangements as well as many occasions when contracts and services had been procured from friends and relations of the co-ordinator. Police investigations into the affairs of the partnership are ongoing but one person has already been charged with theft and fraud and the co-ordinator has been dismissed.

The disclosure to the Auditor General came at a time when the effectiveness of the national Communities First programme was being scrutinised. There were clear lessons to be learned from Plas Madoc and the Welsh Government has since completed an extensive programme of internal audit reviews at other projects across Wales as well as improving monitoring and scrutiny arrangements for partnerships.

In the light of our work on Plas Madoc, the Welsh Government enlisted the expertise of the Wales Audit Office to provide partnerships across Wales with the knowledge and guidance to help prevent such instances occurring in future. We therefore designed and delivered corporate governance training to parties involved in partnerships under the Welsh Government's Communities First programme. These training sessions have received very positive feedback from attendees, and more events are planned for 2011-12.



**Future
focus for
our work**



Helping Wales meet its financial challenges

The considerable changes and tough choices that the Welsh public services face over the next five years are set within the context of the Welsh Government's determination to make delivery its prime focus throughout the term of the Fourth Assembly. This is the broad context in which we are developing the medium-term approach to our work. Our diagnosis of the risks facing the Welsh public sector as it squares up to the financial and delivery challenges it faces will be more fully explained in the Auditor General's second *Picture of Public Services* report, which will be published this autumn.

The funding pressures are clearly the major challenge for public services in Wales with all parts of the public service facing real terms cuts. Devolution brings different policy choices across the UK, and public spending in Wales is diverging from patterns across the rest of the UK. The Welsh NHS is being cut much more sharply than its UK counterparts. It faces major challenges to cut spending while continuing to deliver high quality services to patients and their families. It also faces rising demand and other cost pressures.

Welsh councils also face significant funding cuts, but not as severe as many expected. Nevertheless, the economic climate may well result in an increase in demand for their services from vulnerable groups at a time when available resources are declining. We will continue to provide robust analysis of local authority financial management and medium-term financial planning, particularly through more locally focused improvement assessment work.

The Auditor General intends to produce periodic summarising reports on the finances of NHS Wales and the results of our audit work across central government, and to work with appointed auditors to produce a similar report on our audit work across local government. This work will provide assurance that financial management arrangements stand up to scrutiny as public bodies respond to the financial challenges they currently face.

We will also be seeking to help Wales make better use of grant funding, issuing reports later this year on grants management and on the roll-out of European funding. Alongside this work, we are continuing to develop robust and constructive relationships with audit committees and finance functions across the Welsh public sector. We are also developing further good practice work on the faster closure of accounts and on more effective budgeting.

Workforce issues for the Welsh public service

With staffing costs accounting for the bulk of public services' controllable expenditure, there has inevitably been a focus on job losses, recruitment freezes, and pay freezes to save money. The possible impact on the performance and morale of the workforce of such an approach is also significant. Effective workforce planning, staff engagement and communication will be key areas of focus in our work so that we can support public bodies in mitigating risks of service failure.

Managing risk and encouraging innovation in public service delivery

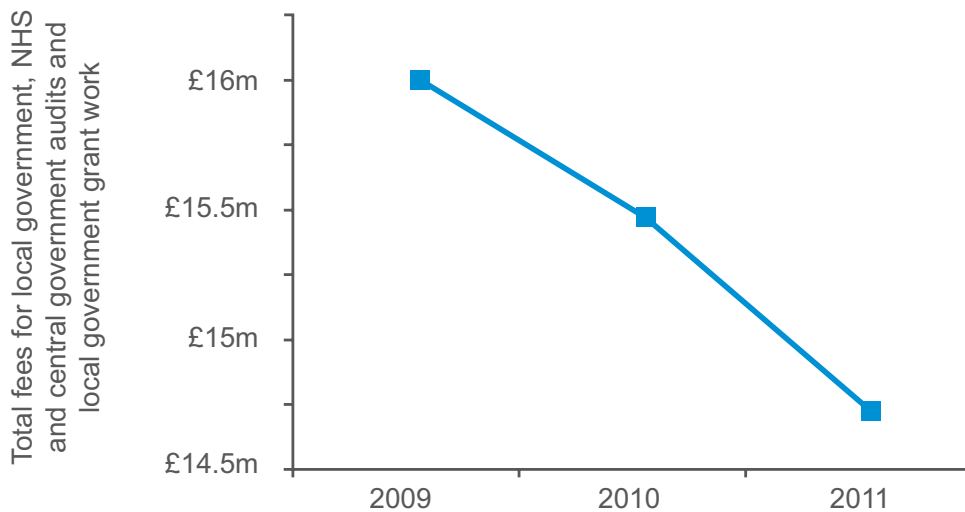
Our focus will be on supporting decision makers in taking well-thought through risks and helping them to avoid an unduly risk-averse culture. There are a range of innovative and collaborative opportunities for public services to cut costs and improve services. We will continue to engage with efforts to help public services improve efficiency and learn from each other to innovate and improve.

One of the key risks will be to manage the impacts of short-term reductions in jobs and services to balance budgets. Our focus will be on supporting a collaborative approach to identifying and managing those risks. Without such an approach, there is a danger that service cuts in one place may simply displace demand and costs to another part of the public sector.

We will also seek, where possible, to provide a view of how Wales compares with other parts of the UK, or countries further afield.

Proportionate external audit work and reductions in annual audit fees

Exhibit 2 Fees charged to audited bodies 2009 to 2011



The Wales Audit Office has achieved significant year-on-year reductions in the fees that we are required to charge to our audited bodies, through efficiency improvements, by making cost savings and by taking a more proportionate approach to our work. The total reduction in fees for local government, NHS and central government audits, and for local government grant work between 2009 and 2011 was £1.27 million or 8.0 per cent (see [Exhibit 2](#), where the 2010 total fees exclude those charged for six-month accounts of demised NHS bodies following reconfiguration).

The Auditor General annually reviews and sets scales of fees for the audit of local government bodies, which are also applicable to the majority of audits of NHS bodies. The Auditor General's fee scales are underpinned by a zero-based approach to audit planning and are benchmarked against the fees charged by other UK audit agencies, where appropriate.

We are continuing to develop ways in which high levels of public assurance can be secured by placing reliance on robust review by others. Our updated programme of value for money studies (available on our website) shows how the Auditor General is consulting with a very wide range of stakeholders to ensure that the programme dovetails effectively with the work of other review bodies.



Our organisation

Our people

Our skilled and professional workforce is essential to providing a good quality external audit service to the people of Wales.

At the 2010-11 year end, the Auditor General directly employed 253 staff (222 whole-time equivalents).

Exhibit 3 Wales Audit Office staff demographics

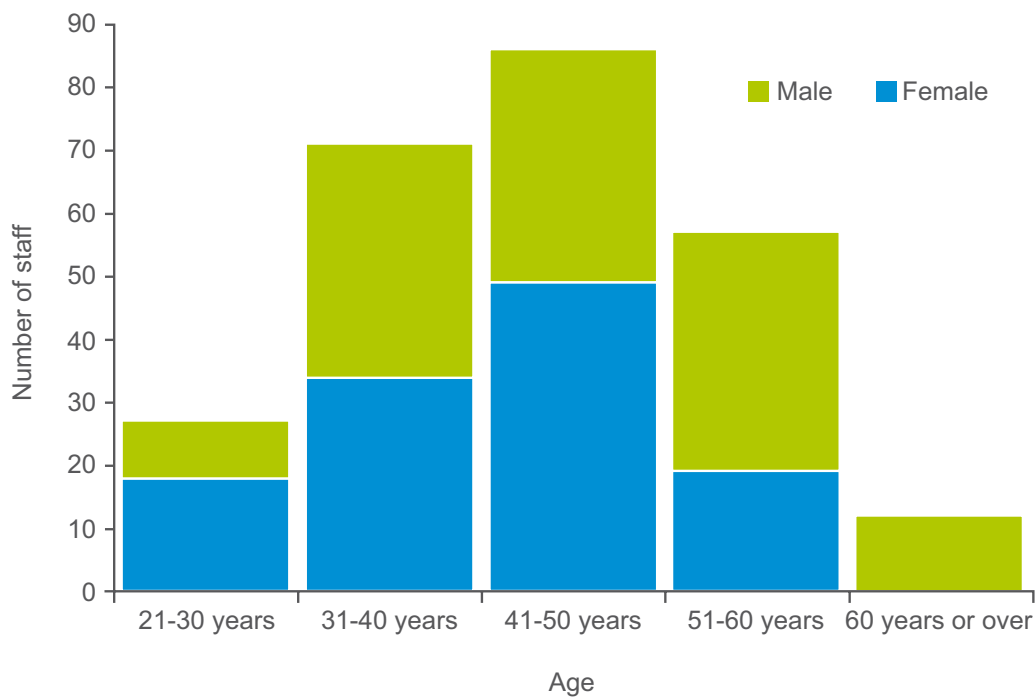


Exhibit 4 Turnover

| Year | 2009-10 | 2010-11 |
|----------|---------|---------------------|
| Turnover | 2.76% | 12.36% ¹ |
| Leavers | 8 | 33 ² |

¹ This compares to a median labour turnover rate of 8.5 per cent for those public service organisations that responded to the 2011 CIPD annual resourcing and talent planning survey.

² 14 of these 33 members of staff left under a voluntary severance scheme that was open to all employees.

Absence and attendance management

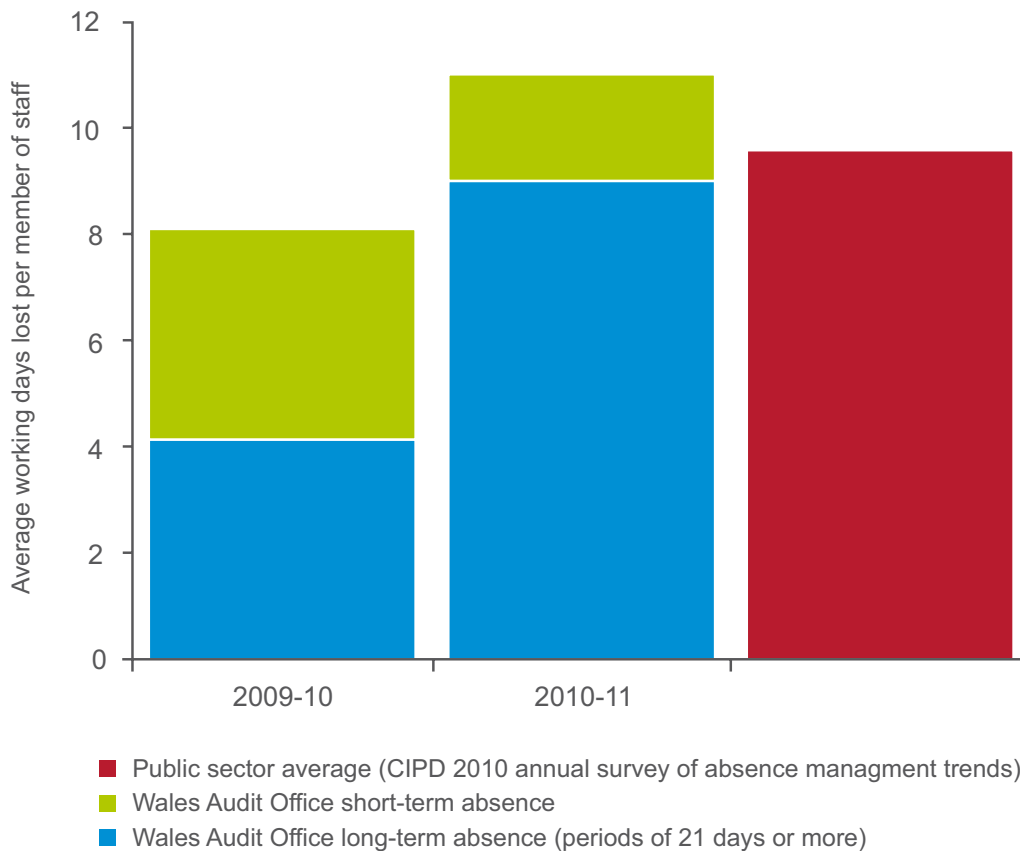
An enhanced *Attendance Management Policy* has been in operation at the Wales Audit Office throughout 2010-11, following approval in March 2010. The main aims of the policy are:

- to give clear guidelines to staff on what they should do when an absence occurs;
- to ensure that all staff are treated fairly and consistently when they are unable to attend work; and
- to encourage staff to seek appropriate medical assistance and to contact our 24-hour Employee Assistance Programme.

We are pleased that the introduction of the policy has led to a reduction in the level of short-term sickness absence. There has been an increase in long-term sickness absence during the last year, primarily due to non-work-related conditions. The new policy has enabled us to provide more effective support to those staff.

Our *Attendance Management Policy* is complemented by our promotion of healthy living, our *Stress in the Workplace* and *Flexible Working* policies, and with training for staff on how to manage the symptoms of stress effectively.

Exhibit 5 Absence





Equality, diversity and dignity at work

The Auditor General aims to promote diversity, equal opportunities and human rights, both as an employer and through his statutory functions. He seeks not only to fulfil relevant statutory obligations, but also to encourage good practice so that current and potential employees are treated positively and consistently.

From May 2011, the Auditor General must comply with the new General Public Sector Equality Duty. This means that in planning and undertaking his work, the Auditor General must consider how that work can, amongst other things, help eliminate discrimination, advance equality of opportunity and foster good relations between people with protected characteristics. The Auditor General must also comply with the Specific Public Sector Equality Duties. We are currently working to fulfil these new duties, including making arrangements for involving representatives of people with protected characteristics in the setting of our specific equality objectives.

Similarly, the Auditor General fully supports the right of all people to be treated with dignity and respect at work and is committed to providing a work environment that values the diversity of all workers (both our own staff and those with whom we come into contact during our work) and is free from all forms of harassment and bullying.

To raise both awareness and understanding of our *Dignity at Work Policy* amongst our staff, we conducted a series of externally facilitated workshops from November 2009 to May 2010 on dignity at work for all staff, including all managers. A special confidential support line was also established and promoted to all staff at the end of each training session.

The provider of the support line has recently reported that the line has not been contacted between 27 November 2009 when it was established and 31 March 2011. Whilst this may suggest that there are no current or pressing issues relating to bullying and harassment, we will nonetheless continue to reinforce the message to all staff that bullying and harassment will not be tolerated.

Staff engagement

We are committed to ensuring that the Wales Audit Office continues to be an organisation that people are proud to work for, and to helping staff enjoy their work and to feel they can make a difference to public services.

The Auditor General seeks to involve and consult with employees about a range of issues including terms and conditions, via the trades unions.

Staff surveys are a key part of understanding the views of staff and identifying what they believe we need to do to improve. We disseminated the results of our latest annual staff survey internally in July 2010. In that survey, our staff identified many positive aspects about working for the Wales Audit Office. They also identified some continuing issues of concern and areas for improvement relating to work allocation and workload, corporate communications and performance management, which have been prioritised for further action.

Learning and development



During 2010-11 we successfully launched our *Ignite* staff development programme. *Ignite* aims to provide staff with high quality training to enable them to develop and enhance the skills and competencies they need to carry out their roles effectively.

The first year of the programme included a leadership development programme which has been designed for those staff who spend a significant amount of their time managing others.

The content of the leadership programme was influenced by a reference group of staff and then developed with support from a former Chief Executive of the UK National School of Government. It included a live case study exercise, working with charities or other third sector organisations. Fifty-seven staff participated in the leadership programme during 2010-11, and a very high proportion felt that it had met its objectives.

Alongside the leadership development programme, a range of other in-house and external training was provided to staff in 2010-11 to support their corporate and professional development needs.

Sustainable development

Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs. We are committed to embedding sustainable development in all of our audit work, and also in the way we ourselves work as an organisation.

Over the past year, we have worked hard to embed sustainable development in the way we work, in a wide range of ways. Key areas of focus were reducing our environmental impact, undertaking an efficiency review by challenging our existing ways of working and delivering a leadership programme which developed our staff whilst also making a positive impact on the wider community.



'Last year, the Wales Audit Office published an influential report on what else we need to do to continue to embed sustainable development in our business decision making. As part of the scrutiny, we want the Wales Audit Office to continue to scrutinise us across departments to ensure we are up to mark here. We are keen as well that the Wales Audit Office is able to embed sustainable development in the way that it carries out all its audit work across the public sector in Wales.'

Extract from Ministerial address to the 'Big Sustainability Summit' in London, March 2011

Reducing our impact on the environment



During 2010-11, we made significant progress in achieving our environmental targets:

- Our use of videoconferencing increased by 67 per cent. We also reduced our car journeys by 136,325 miles and other types of travel by 17,024 miles, exceeding our targets by some margin (the reduction in all business journeys also reduced the cost of travel and overnight accommodation by around £29,000).
- We reduced taxi journeys by 11 per cent in just one year, exceeding our initial target of five per cent.
- We continued to achieve a year-on-year decrease in our paper use, with a 19 per cent reduction over this year. This was achieved mainly through reducing the number of paper invoices that we issued by around 80 per cent, reducing report print runs, and through the promotion of electronic record-keeping.

- We failed to achieve our target of a two per cent annual reduction in electricity use. Although we took measures to improve our use of energy resources, due to the extended period of cold weather in winter 2010, we used double the usual amount of electricity in heating our offices during that period. However, our overall total CO₂ emissions still decreased by 71,828 kg when compared to the previous year.
- We achieved re-accreditation at Level 3 of the Groundwork Wales Green Dragon Environmental Standard at all of our primary offices in recognition of our environmental management system and procedures.

In February 2011 we conducted an internal recycling survey and held information sessions to help raise awareness, support our audit work, and make improvements such as promoting recycling more clearly.

Efficiency and savings

All public sector bodies, including the Wales Audit Office, face the challenge of continuing to deliver the best possible services against a background of unprecedented pressures on public finances. Whilst we have exceeded our overall efficiency targets over the last five years, we continued to review our expenditure through 2010-11 and established an internal Efficiency and Savings Review Group to accelerate our progress in this area.

The overall level of savings that we have achieved in 2010-11 through cost reduction and greater efficiency is over £1,000,000 (see Financial Review section).

Community and charity work

The Wales Audit Office recognises the benefits that community and charity work by staff can bring to the wider community and applauds its staff for their individual efforts. Staff can apply the skills they have developed in the workplace and can develop new skills, whilst improving their morale, physical health and work-life balance.

Subject to operational requirements the Wales Audit Office supports employees who wish to undertake community or charity activities such as community care work, environment work and conservation projects, fundraising for community projects and charities, and the administration of public events.

Staff are also able to participate in a 'give as you earn' scheme, and held a number of internal events to raise cash for charity through the year.

Working with the third sector

Our leadership development programme included a live case study exercise, working with a charity or other third sector organisation. The case studies typically included intensive service review and solving particular challenges, for example, promoting the organisation's mission and staying afloat in difficult economic times. In 2010-11, our *Ignite* participants worked with Tai Pawb, an organisation that promotes equality and social justice in housing in Wales, the Welsh Refugee Council, Tenovus – the cancer charity – and the Pembrokeshire Association of Voluntary Services.

'Tai Pawb derived great value from the hard work carried out by senior managers at the Wales Audit Office, as it was good to receive a fresh perspective from outside the organisation.'

Tai Pawb Annual Report

'We wanted to feed back as an organisation how much of a delight they were to work with – they were professional throughout, showed great skill in communicating with some of our clients who do not speak much English and demonstrated a real range of hard and soft skills. Whilst challenging for us as they did ask those 'difficult questions'; their ability to capture the issues at the heart of the WRC was

impressive. They worked on a real situation as we now face a one third cut in our budget from April 2011 of £720,000. They provided us with some real solutions and as I said it has made a real difference to us in our thinking about restructuring and refocusing the organisation.'

Chief Executive of the Welsh Refugee Council, in a note of thanks to the Auditor General



Financial Review



Financial outcome

The work of the Wales Audit Office is funded from a variety of sources, including financing from the Welsh Consolidated Fund (WCF), audit fees earned from audited bodies and contributions earned from contractor firms.

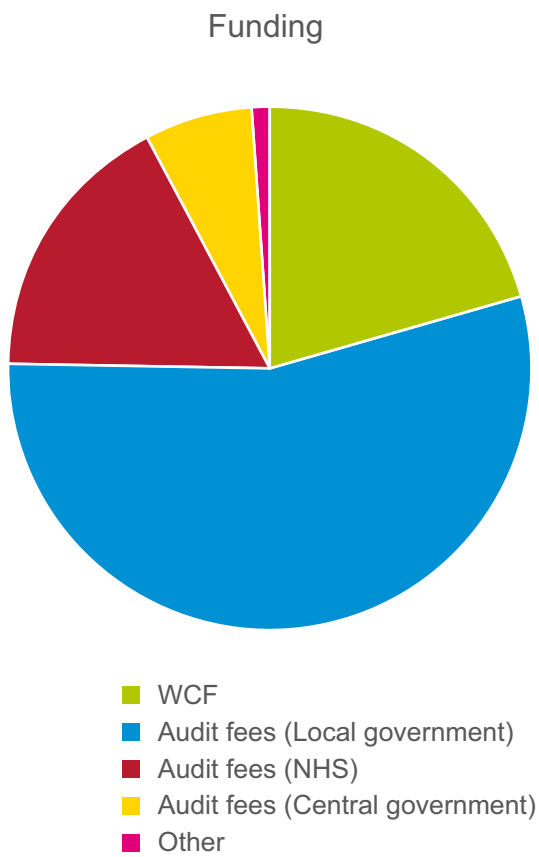
The results of the Wales Audit Office for 2010-11 are summarised as follows:

| | £'000 |
|--|------------------------|
| Income and financing | |
| Audit and inspection fees: Local government | 13,391 |
| NHS | 4,181 |
| Central government | 1,604 |
| WCF | 5,047 |
| Other income | 258 |
| | <hr/> 24,481 |
| Expenditure | |
| Staff costs | 16,086 |
| Bought-in services | 3,379 |
| Other operating costs | 2,993 |
| Corporation tax | 13 |
| | <hr/> 22,471 |
| Surplus generated in year | 2,010 |
| Prior-year adjustments | (1,336) |
| | <hr/> 674 |
| Payable to the WCF | (629) |
| General fund balance as reported in 2009-10 accounts (excluding impact of prior year adjustment) | 117 |
| General fund balance 31 March 2011 | <hr/> 162 <hr/> |

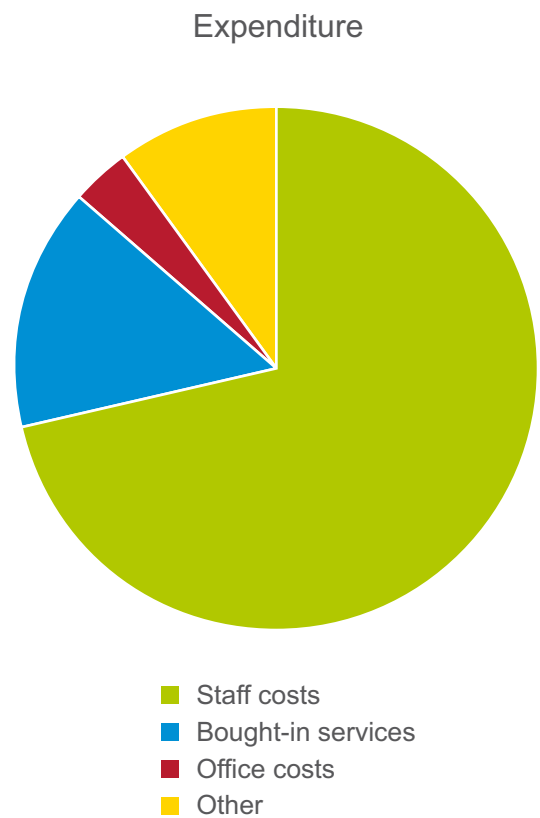
The overall net surplus generated in the year can be identified from the accounts as follows:

| | £'000 |
|---|-----------------|
| Finance from the WCF | 5,074 |
| Statement of Comprehensive Net Expenditure | (3,037) |
| Impact of prior year adjustments for provisions | (1,336) |
| Capital expenditure funded by WCF | (27) |
| Net surplus generated in year | <hr/> 674 <hr/> |

The main sources of funding during 2010-11 are shown in the following chart:



The Wales Audit Office uses these funds to pay its staff and to provide the necessary support to enable those staff to undertake their work. The main areas of expenditure in the year are shown in the following chart:



Commentary on reported results

All public sector bodies, including the Wales Audit Office, face considerable financial pressures at present as a result of significant reductions in current and future public sector expenditure. The Wales Audit Office is working on a programme of reducing audit fees where possible in response to the pressures on its audited bodies.

As was widely reported in the media, we identified in 2010 that our accounts for 2009-10 and earlier years were misstated as they did not properly include provisions for early retirements. This omission has been corrected in the 2010-11 accounts through a prior year adjustment. We have therefore needed to identify resources to fund these ongoing early retirement commitments which had not been included in the accounts of previous years. This amounted to a net resource demand of £1,336,000.

We achieved an operating surplus during the year of £2,010,000 which was largely absorbed in funding the total prior year adjustments of £1,336,000 giving a net surplus of £674,000. We have succeeded against a background of reducing audit fee income (see Future focus of our work) to achieve significant cost reductions, efficiency savings and the deferral of some expenditure to fund these early retirement provisions, and to generate this modest additional surplus during the year.

The Executive Committee wishes to use available resources to fund a further voluntary severance scheme during 2011-12. The intention of this scheme is to further reduce the cost base of the Wales Audit Office.

Efficiency and savings

Whilst we have exceeded our overall efficiency targets over the last five years we also needed to make significant reductions to costs during 2010-11 to fund the impact of early retirement costs of previous years as noted above.

The overall level of savings over planned expenditure that we achieved in 2010-11 through cost reduction and greater efficiency was well over £1,000,000. This covered a very wide range of areas, including part-year savings from last year's voluntary severance scheme and other staff cost savings of over £300,000 (recurring), as well as further savings in training of over £80,000 (recurring), publishing and translation of over £75,000 (recurring) and ICT expenditure of over £335,000 (mostly deferred).

As part of this work, we also reviewed our estate across Wales and are considering further changes to our office space, in consultation with staff, that may yield future cost efficiencies.

Accountability to the National Assembly

As summarised in the Summary of Resource Out-turn, a cash sum of £629,000 is payable to the WCF. However, the Auditor General intends to request authority from the National Assembly to retain corresponding resource to contribute to the funding of the further voluntary severance scheme referred to above.

Our financial management

We are currently undertaking work to enhance our financial management arrangements. This includes an improved alignment of budget management responsibilities to operational accountabilities and the recent development of a revised fees model. We also plan to assess our internal financial controls and practices against a *Financial Management Maturity Model* that the National Audit Office has developed as a tool for assessing financial management.

Risk and uncertainties

The public sector faces unprecedented challenges to the scale, scope and financing of its operations over the coming years. As explained in the *Future focus of our work*, the Wales Audit Office is responding to the financial pressures faced by its audited bodies through a programme of reducing audit fees.

This in turn reduces the future income available to the Wales Audit Office. We are working to manage these through further structured cost reductions, efficiencies and improved business planning.

As explained in Note 19 of the financial statements, the Auditor General has continued to apply the VAT treatments adopted by predecessor bodies, namely the Audit Commission in Wales and the National Audit Office in Wales. Discussions have been ongoing with HM Revenue and Customs for a number of years to confirm the Auditor General's VAT status and to

determine the appropriate status of his VAT supplies. Although those discussions are progressing, it is not possible at present to determine whether any liability will crystallise, and if so, what the likely quantum of such a liability might be. Were a significant liability to crystallise, the Auditor General would need to obtain funding from the WCF or increase audit fees to meet that liability.

Payment of suppliers

The Auditor General aims to observe the principles of the Better Payment Practice Code and pay all undisputed invoices from suppliers within 30 days. In the 12-month period, 96.1 per cent of undisputed invoices were paid within 30 days (2009-10, 96.3 per cent).

Auditors of the Wales Audit Office

The National Assembly appointed the Auditor General for Scotland as the external auditor of the 2010-11 accounts of the Auditor General for Wales.

All relevant audit information has been made available to the external auditors and the Auditor General has taken steps to make himself aware of any relevant audit information and has ensured that the external auditors were aware of that information.



Statements of Accounts



Remuneration Report

Remuneration policy

Auditor General for Wales

The Auditor General's remuneration is determined by the National Assembly, and in accordance with the Government of Wales Act 2006 is met from the WCF. However, for enhanced transparency the remuneration of the Auditor General is disclosed in this Remuneration Report.

Audit and Risk Management Committee members

The remuneration of these non-executive members is determined by the Auditor General.

Wales Audit Office staff

The Auditor General is permitted by legislation to appoint such staff as he considers necessary for assisting him in the discharge of his duties. The remuneration of members of the Executive Committee is determined by the Auditor General. The remuneration terms for other staff of the Wales Audit Office are set by the Wales Audit Office's Executive Committee. Remuneration of all members of staff is subject to consultation with trade unions under a collective agreement.

Remuneration Committee

The Auditor General has established a Remuneration Committee, which will become operational during 2011-12. The Remuneration Committee will support the Auditor General in the discharge of responsibilities for issues relating to the remuneration of Wales Audit Office staff, including senior staff.

Remuneration details

Auditor General for Wales

The Auditor General's salary costs are a direct charge on the WCF and are not therefore paid through the Wales Audit Office. The current Auditor General, Mr Huw Vaughan Thomas, was appointed by Her Majesty the Queen and took office on 1 October 2010 for a non-renewable period of eight years. Ms Gillian Body served as Auditor General between 12 February 2010 and 30 September 2010.

Gross salary costs of the Auditors General during 2010-11 were £142,850 (Mr Huw Vaughan Thomas: £75,000 and Ms Gillian Body: £67,850) (2009-10: £164,706) and employers' pension costs were £27,838 (Mr Huw Vaughan Thomas: £11,350 and Ms Gillian Body: £16,488) (2009-10: £30,070).

Mr Huw Vaughan Thomas has opted to contribute to a partnership pension account (a form of personal stakeholder pension to which an employer contributes). Total contributions to this account during 2010-11 were £12,833 (including employer contributions of £11,350 and member contributions of £1,483).

Ms Gillian Body was a member of the Principal Civil Service Pension Scheme (PCSPS) during her period in office. Information regarding her pension benefits is provided in the following senior manager disclosures.

Mr Jeremy Colman was a member of the PCSPS during his period in office. The Cash Equivalent Transfer Value (CETV) of his pension benefits at the end of his period in office was £604,472 with an accrued pension at that date of £25,445. This included a real increase in CETV during 2009-10 of £52,549 and a real increase in pension benefit of £2,304.

The following information in the Remuneration Report is subject to audit.

Senior management

The Executive Committee is chaired by the Auditor General and additionally during 2010-11 comprised:

| | Date of appointment to Wales Audit Office or precursor organisation | Date of appointment to post | Date of termination | Contract |
|---------------------------------|--|------------------------------------|----------------------------|-----------------|
| Gillian Body¹ | 02/09/1981 | 01/12/2009 | N/A | Permanent |
| Anthony Barrett | 24/01/2001 | 01/12/2009 | N/A | Permanent |
| Kevin Thomas² | 26/10/1992 | 01/12/2009 | N/A | Permanent |

¹ Between 12 February 2010 and 30 September 2010 Gillian Body was the Auditor General on a temporary basis.

² Following a competitive selection process, Kevin Thomas was appointed on 1 December 2009 for an initial period of 12 months. His post was made permanent following a further selection process at the end of this 12-month period.

Each member of the Executive Committee is subject to a performance review which is conducted on a half-yearly basis. The notice period for each member is 12 weeks. Early termination, other than through misconduct, would result in the individual receiving compensation on loss of office.

Senior managers' remuneration details

The following table includes remuneration information for the Executive Committee (and its predecessor Management Committee). It includes remuneration details in 2009-10 for members of the Management Committee until it was replaced by the Executive Committee from 1 December 2009 and for members of the Executive Committee from that date. The table only includes remuneration for Ms Gillian Body for that period during which she did not serve as Auditor General.

| | Year to 31 March 2011 | | | | Year to 31 March 2010 | |
|---------------------------------|-----------------------|--------------------------------------|-----------------|----------------------|--|-----------------------|
| | Salary | Benefits in kind (being leased cars) | Total | Pension contribution | Total (excluding pension contribution) | Pension contributions |
| | Bands of £5,000 | To nearest £100 | Bands of £5,000 | Bands of £2,500 | Bands of £5,000 | Bands of £2,500 |
| Gillian Body ^{1, 3, 4} | 55-60 | 0 | 55-60 | 12.5-15.0 | 95-100 | 20.0-25.0 |
| Anthony Barrett ⁴ | 110-115 | 4,100 | 115-120 | 27.5-30.0 | 35-40 | 7.5-10.0 |
| Kevin Thomas ⁴ | 95-100 | 5,200 | 100-105 | 22.5-25.0 | 35-40 | 7.5-10.0 |
| Anthony Snow ^{2, 3, 4} | - | - | - | - | 780-785 | 15.0-17.5 |
| Jane Holownia ^{3, 4} | - | - | - | - | 65-70 | 12.5-15.0 |
| Simon Edge ^{3, 4} | - | - | - | - | 70-75 | 15.0-17.5 |
| Ceri Stradling ^{3, 4} | - | - | - | - | 70-75 | 15.0-17.5 |

- 1 Between 12 February 2010 and 30 September 2010, Gillian Body was the Auditor General on a temporary basis. During this time her salary was paid directly from the WCF.
- 2 In addition to annual salary, this includes a lump sum termination payment of £100,000, pay in lieu of notice of £28,849 and future annual pension contributions of £63,770 until age 60 due to Anthony Snow under the terms of a compromise agreement. This information was not fully disclosed in the 2009-10 accounts. No other senior manager received termination benefits that should be reported in the Remuneration Report.
- 3 Gillian Body, Anthony Snow, Jane Holownia, Simon Edge and Ceri Stradling were members of the Management Committee, which was replaced by the Executive Committee from 1 December 2009.
- 4 Full-year equivalent salaries for Executive Committee and Management Committee members during 2009-10 were as follows: Gillian Body - £118,000; Anthony Barrett - £113,900; Kevin Thomas £96,240; Anthony Snow - £127,015; Jane Holownia - £96,836; Simon Edge - £103,900; and Ceri Stradling - £103,900.

No bonuses were paid to any members of staff.

Senior management pension details

| | Real increase in pension at 60 | Real increase in lump sum | Pension at 31 March 2011 | Lump sum at 31 March 2011 | Total accrued pension at 31 March 2010 | Increase in transfer value | CETV at 31 March 2011 | CETV at 31 March 2010 |
|-----------------|--------------------------------|---------------------------|--------------------------|---------------------------|--|----------------------------|-----------------------|-----------------------|
| | Bands of £2,500 | Bands of £2,500 | Bands of £5,000 | Bands of £5,000 | Bands of £5,000 | £000's | £000's | £000's |
| Gillian Body | 0-2.5 | 0-2.5 | 40-45 | 130-135 | 160-165 | 6 | 744 | 728 |
| Anthony Barrett | 2.5-5 | - | 25-30 | - | 20-25 | 22 | 298 | 239 |
| Kevin Thomas | 5-7.5 | - | 30-35 | - | 25-30 | 52 | 356 | 277 |

The actuarial factors used to calculate CETVs were changed during 2010-11. The CETV figures at 31 March 2010 differ from the corresponding figures in last year's Remuneration Report, which were calculated using the previous factors.

Cash equivalent transfer values

The CETV is the actuarially capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in CETV reflects the increase effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Audit and Risk Management Committee

Audit Risk and Management Committee Member remuneration details are as follows:

| | 2010-11 £ | 2009-10 £ |
|---|--------------|--------------|
| Peter Laing – Chairman¹ | 11,650 | 12,521 |
| Professor David Hands | 5,000 | 5,000 |
| Rosamund Blomfield-Smith | 5,000 | 5,000 |
| Haydn Warman | 5,000 | 2,069 |
| Dr Michael P Brooker | 5,000 | 2,069 |
| Denver Lynn² | Nil | Nil |

¹ Mr Laing receives £7,250 as Chair of this committee. He received additional remuneration included in the figures above for further work commissioned by the Auditor General.

² Mr Lynn is a Director working for the Northern Ireland Audit Office. He received no remuneration from the Wales Audit Office for his membership of this committee.

The contract for each member is for three years extendable by up to another three years by mutual consent, with the committee meeting up to four times a year. The contracts for Peter Laing, Professor David Hands and Rosamund Blomfield-Smith have been extended by three years to 2012.



Huw Vaughan Thomas
Accounting Officer
31 August 2011

Statement of Accounting Officer's Responsibilities

Under paragraph 13(1) of Schedule 8 to the Government of Wales Act 2006, HM Treasury has directed the Auditor General to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. A new direction has been obtained for the 2010-11 Statement of Accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Auditor General and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Auditor General is designated as the Accounting Officer of the Wales Audit Office under paragraph 16(1) of Schedule 8 to the Government of Wales Act. The Auditor General's responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the available resources are set out in *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly under paragraph 16 of Schedule 8 to the Government of Wales Act 2006.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Wales Audit Office's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly.

As Auditor General, I am independent of both the National Assembly and the Welsh Government. As Accounting Officer, I am accountable to the Public Accounts Committee of the National Assembly (and to the House of Commons Committee of Public Accounts) for the overall organisation, management and staffing of the Wales Audit Office and for its procedures in relation to financial and other matters. The Public Accounts Committee examines my annual Estimate of income and expenditure.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Wales Audit Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Wales Audit Office for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Executive Committee has overall responsibility for management of risk in the Wales Audit Office, although each identified risk is allocated to an appropriate senior manager. The Audit and Risk Management Committee (ARMC) provides scrutiny of the Wales Audit Office's risk management arrangements.

My aim is to manage the business of the Wales Audit Office in a manner that takes account of the risks we face, using appropriate control systems. This objective is embedded in our working methods including defined governance procedures, quality control policies, financial management and the identification and management of identified risks. There is, however, scope to develop further many of these arrangements.

We are working to develop a corporate performance management framework, supported by detailed financial management information, that will provide me, my Executive Committee and other directors and managers with more appropriate and timely management information to allow us to identify and respond to emerging risk. Our governance arrangements will be further strengthened over the coming year as I have outlined below. We are also currently reviewing our financial policies and procedures to improve our control arrangements and to more clearly define responsibilities and accountabilities.

The public sector faces unprecedented challenges to the scale, scope and financing of its operations over the coming years. To ensure that we continue to respond to this changing environment, a new corporate strategy will be developed, which will drive business planning and help to better define accountabilities within the Wales Audit Office.

The risk and control framework

I reported to the Public Accounts Committee in October 2010 that improvements were urgently needed to make the Wales Audit Office more open and accountable. I have since established a new structure of three governance committees to exercise oversight respectively of remuneration, resources, and audit and risk management. All three committees are exclusively non-executive, and members are recruited following Office of the Commissioner for Public Appointments' principles. The governance committees' agendas and minutes will be published on the Wales Audit Office's website, and the work of the committees will be summarised in an annual Governance Report.

Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity and propriety, and financial management is low.

I employ a large number of qualified accountants who are bound by the ethical requirements of their professional bodies. The Wales Audit Office conforms with International Standards on Auditing. In particular, the International Standard on Quality Control 1 is applied to all of our financial audit engagements. Control over the quality of audits is facilitated through our audit process and the hierarchical supervision provided within individual projects. We also have a system of internal and external reviews. The results of these reviews are reported to the Executive Committee. These controls apply both to work undertaken by staff of the Wales Audit Office and to private sector firms contracted to undertake work for me.

We maintain a Corporate Risk Register which identifies strategic and operational risks that could affect the achievement of our aims. We are alert to the need to keep these risks under review and deal appropriately with changing circumstances as they arise.

The Executive Committee and ARMC have positively engaged with and requested various changes to the Corporate Risk Register throughout the year. The changes have improved the clarity of the description and presentation of the risks and the actions identified to mitigate and manage them. The Wales Audit Office's risk management framework has been updated to reflect the changes to corporate services, and now includes a summary of the status of corporate risks. The Corporate Risk Register is reviewed on a monthly basis by the Executive Committee and is a standing agenda item for review at ARMC meetings.

Information governance

Together with the staff of the Wales Audit Office, I have privileged and wide-ranging access to data and information to support the discharge of the audit function and to ensure that my reports are factual, accurate and complete. The Wales Audit Office has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

In discharge of this duty, the Wales Audit Office has an *Information Security Policy*, which:

- sets out the obligations of all employees in relation to the use of Wales Audit Office ICT facilities;
- outlines the legal requirements for processing data;
- highlights key security responsibilities for all staff;
- sets out the Wales Audit Office's arrangements to monitor policy compliance; and
- explains how staff can obtain further support and guidance and how security incidents should be reported.

Failure to comply with this policy may lead to investigation and other action in accordance with the Wales Audit Office's *Disciplinary Policy*.

Following a review of the circumstances that led to the arrest and conviction of the former Auditor General, Mr Colman, further controls were introduced during the course of the past year, which included:

- blocking of access from Wales Audit Office systems to personal e-mail and social networking websites; and

- amendment of the *Information Security Policy* to make clear that routine monitoring will take place to check staff compliance with the law and Wales Audit Office policy.

There were no personal data related incidents reportable to the Information Commissioner's Office in 2010-11.

Review of effectiveness and significant control problems

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the work of the internal and external auditors and my senior managers who have responsibility for the development and maintenance of the internal control framework.

The process that I have maintained to ensure internal control during the year includes both risk management and other sources of assurance, including Internal Audit. The Head of Internal Audit has regular and unfettered access to me and to the Chairman of the ARMC, and attends every ARMC meeting.

Internal Audit submits regular reports on the management of key business risks and the effectiveness of the Wales Audit Office's system of internal control and makes recommendations for improvement. Recommendations have been accepted by management and have been implemented or are being progressed in accordance with agreed timetables. The status of Internal Audit recommendations is regularly reported to the Executive Committee and ARMC.

During the year, Internal Audit undertook a review of the conduct of the former Auditor General, Mr Colman, whilst in office. A review was also undertaken of the Wales Audit Office's accounts for 2009-10 and a further review of the accounts for 2005 to 2010 was undertaken by the National Audit Office. The results of these three reviews were reported to me, my Executive Committee, the ARMC, and the Public Accounts Committee, the latter making them a matter of public record. The reviews found:

- that Mr Colman did not apply controls consistently and on occasions he departed from them;
- instances where Mr Colman disregarded agreed and adopted management arrangements and failed in some of his responsibilities as the Accounting Officer for the Wales Audit Office; and
- that there were a number of weaknesses in the process of compiling the 2009-10 accounts that contributed to the accounts misstating the financial position of the Wales Audit Office as at 31 March 2010. Similar issues were also found in relation to previous years.

In addition, certain weaknesses were identified in the approval of the training requirements of the former Auditor General (Mr Colman) and the former Chief Operating Officer (Mr Anthony Snow). The losses and special payments note (Note 17) identifies expenditure of £1,080 on training provided to Mr Snow after his last day of effective service with the Wales Audit Office.

These reports together with additional information were also considered by the Public Accounts Committee of the National Assembly, which issued its own report in March 2011.

These reports made a number of recommendations to improve the robustness of the controls over the compilation, management review and scrutiny of the Wales Audit Office's accounts. Recommendations were also made in relation to the wider governance arrangements of the Auditor General and the Wales Audit Office. Considerable progress has been made against these recommendations, which is being monitored by the Executive Committee and ARMC.

The Head of Internal Audit's overall annual opinion for 2010-11 is that the Wales Audit Office's systems are capable of delivering effective internal control and risk management, and that controls over key financial systems were generally adequate to enable effective financial and management control. He was also satisfied that I, as the Accounting Officer, was aware of the need for, and operate, adequate control systems. He further concluded that the specific and significant deficiencies in internal control relating to 2009-10 and earlier years were attributable to specific root causes which are being addressed through the introduction of improved governance and control arrangements.



Huw Vaughan Thomas
Accounting Officer
31 August 2011

Certificate of the Auditor General for Scotland to the National Assembly for Wales

I certify that I have audited the financial statements of the Auditor General for Wales for the year ended 31 March 2011 under the Government of Wales Act 2006. These financial statements comprise the Summary of Resource Outturn, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Taxpayers' Equity, and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2010/11 Government Financial Reporting Manual (the 2010/11 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Government of Wales Act 2006 and for no other purpose. I do not undertake to have responsibilities to third parties.

Respective responsibilities of the Auditor General for Wales and the Auditor General for Scotland

As explained more fully in the Statement of the Accounting Officer's Responsibilities set out on page 61, the Auditor General for Wales is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and receipts. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and receipts.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Auditor General for Wales' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view, in accordance with the Government of Wales Act 2006 and the directions made thereunder by the Treasury, of the state of affairs of the Auditor General for Wales at 31 March 2011 and of the net resource outturn, the net cash requirement and the comprehensive net expenditure, changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 FReM; and
- have been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by the Treasury.

Opinion on regularity

In my opinion in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform with the authorities that govern them.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by the Treasury; and
- the information included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I have nothing to report in respect of the following matters where I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement on Internal Control does not comply with relevant Treasury guidance.

Report

My report to the National Assembly for Wales is set out on pages 93 to 96.



Robert W Black
Auditor General for Scotland
110 George Street
Edinburgh
EH2 4LH

9 September 2011

Summary of Resource Out-turn for the year ended 31 March 2011

| | 2010-11 | | | | | | |
|--|-------------------|--------|-----------|-------------------|--------|-----------|---|
| | ESTIMATE | | | OUT-TURN | | | Net total out-turn compared with budget |
| | Gross expenditure | Income | NET TOTAL | Gross expenditure | Income | NET TOTAL | |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Revenue | 15,819 | 10,772 | 5,047 | 11,820 | 7,913 | 3,907 | 1,140 |
| Capital | | | | 27 | | 27 | (27) |
| Prior period adjustment | | | | | | 544 | (544) |
| TOTAL RESOURCES | | | 5,047 | | | 4,478 | 569 |
| NET CASH REQUIREMENT (see reconciliation below) | | | 5,074 | | | 4,445 | 629 |

Reconciliation of Total Resources to Net Cash Requirement

| | Estimate £'000 | Out-turn £'000 | Variances £'000 |
|--|-------------------|-------------------|--------------------|
| Total resources (as above) | 5,047 | 4,478 | 569 |
| Adjustments: | | | |
| Non-cash items (depreciation) | (200) | (108) | (92) |
| Movements in working capital other than cash | 227 | 619 | (392) |
| Prior year adjustment | | (544) | 544 |
| Net cash requirement | 5,074 | 4,445 | 629 |

The above Summary of Resource Out-turn summarises the Wales Audit Office's achieved position against those elements of the budget of the Wales Audit Office that are subject to approval by budget motion of the National Assembly. Namely, the amount of resources and cash that can be drawn down from the WCF and the amount of income generated from NHS, central government, local government grants work and sundry sources that can be retained. The following table summarises where the figures above have been derived from the corresponding figures within the Statement of Accounts, and provides a breakdown of how those figures have been apportioned to the Summary of Resource Out-turn.

| | Note | Total £'000 | Included in Summary of Resource Out-turn £'000 | Not included in Summary of Resource Out-turn £'000 |
|------------------------------|------------------------|----------------|--|--|
| Income | 2 | 19,434 | 7,913 | 11,521 |
| Expenditure | 2 | 22,471 | 11,820 | 10,651 |
| Prior year adjustment | Taxpayers' Equity | 1,336 | 544 | 792 |
| Depreciation | 7 | 265 | 108 | 157 |
| Movements in working capital | Cash Flow Statement | (1,518) | (619) | (899) |
| Capital additions | 8 and 9 | 67 | 27 | 40 |

The movement in working capital in the above table is the net of the movements in receivables (£319,000) and payables (£1,837,000) shown in the Cash Flow Statement.

Explanation of variances

1. The net underspends above arise from the savings and efficiencies achieved in the year, as outlined in the Financial Review.
2. Further information about the prior year adjustment is provided in Note 21.

Summary of cash payable to the Welsh Consolidated Fund

Arising from the operations of the Wales Audit Office for the 2010-11 financial year, the sum of £629,000 is payable to the WCF.

As noted in the Financial Review, the Auditor General intends to request authority from the National Assembly to retain resource corresponding to this amount to contribute to the funding of the Wales Audit Office's voluntary severance scheme, thereby helping to reduce our future annual running costs.

2009-10 comparative figures

2010-11 is the first year in which a Summary of Resource Out-turn has been adopted. In 2009-10 the equivalent accountability information was provided in Note 10 to the financial statements. This recorded the resource out-turn as £5,047,000 and the out-turn cash requirement as £5,020,000, both in line with the Estimates authorised by the National Assembly. This approach did not estimate for, or bring to account, capital expenditure. The relevant portion of capital expenditure that should have been estimated and accounted in 2009-10 would have been approximately £184,000.

Other aspects of accountability in relation to comparative figures have been brought to account by the Prior Period Adjustment.

The notes that follow on pages 75 to 92 form part of these financial statements.

Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

| | Note | Year to 31 March 2011 £000 | Restated year to 31 March 2010 £000 |
|---|------|-------------------------------------|---|
| Expenditure | | | |
| Staff and associated costs | 4 | 16,086 | 18,261 |
| Bought-in services | 6 | 3,379 | 4,096 |
| Other operating costs | 7 | 2,993 | 3,806 |
| | | 22,458 | 26,163 |
| Income | | | |
| Audit fee income | | 17,340 | 16,606 |
| Inspection income | | 1,836 | 3,599 |
| Other operating income | 3 | 250 | 371 |
| | | 19,426 | 20,576 |
| Net expenditure | | (3,032) | (5,587) |
| Interest payable/receivable | | 8 | 5 |
| Corporation tax | | (13) | (1) |
| Net expenditure after tax and interest | | (3,037) | (5,583) |
| Other comprehensive expenditure | | 0 | 0 |
| Total comprehensive net expenditure for the year | | (3,037) | (5,583) |

The notes that follow on pages 75 to 92 form part of these financial statements.

There were no discontinued operations, acquisitions or disposals during the period nor any unrecognised gains or losses.

Figures for 2009-10 have been restated. Further information is provided in Note 21.

Statement of Financial Position at 31 March 2011

| | Note | 31 March 2011 £000 | Restated 31 March 2010 £000 | Restated 31 March 2009 £000 |
|--|------|--------------------------|--------------------------------------|--------------------------------------|
| Non-current assets | | | | |
| Property, plant and equipment | 8 | 746 | 1,268 | 1,134 |
| Intangible assets | 9 | 442 | 120 | 0 |
| <i>Total non-current assets</i> | | <u>1,188</u> | <u>1,388</u> | <u>1,134</u> |
| Current assets | | | | |
| Trade receivables and work in progress | 10 | 1,606 | 2,027 | 2,356 |
| Other receivables | 11 | 562 | 460 | 532 |
| Cash and cash equivalents | 12 | 4,016 | 3,296 | 1,056 |
| <i>Total current assets</i> | | <u>6,184</u> | <u>5,783</u> | <u>3,944</u> |
| <i>Total assets</i> | | <u>7,372</u> | <u>7,171</u> | <u>5,078</u> |
| Current liabilities | | | | |
| Trade payables and other current liabilities | 13 | 1,671 | 1,584 | 1,505 |
| Deferred income | 14 | 3,329 | 4,702 | 3,368 |
| Provisions for liabilities and charges | 15 | 458 | 1,013 | 213 |
| WCF (see Summary of Resource Out-turn) | | 629 | 0 | 0 |
| <i>Total current liabilities</i> | | <u>6,087</u> | <u>7,299</u> | <u>5,086</u> |
| <i>Total assets less current liabilities</i> | | 1,285 | (128) | (8) |
| Non-current liabilities | | | | |
| Provisions for liabilities and charges | 15 | 1,123 | 1,118 | 675 |
| <i>Total non-current liabilities</i> | | <u>1,123</u> | <u>1,118</u> | <u>675</u> |
| <i>Assets less liabilities</i> | | <u>162</u> | <u>(1,246)</u> | <u>(683)</u> |
| Taxpayers' equity | | | | |
| General reserve | | 162 | (1,246) | (683) |
| <i>Total reserves</i> | | <u>162</u> | <u>(1,246)</u> | <u>(683)</u> |

The notes that follow on pages 75 to 92 form part of these financial statements.



Huw Vaughan Thomas
Accounting Officer
31 August 2011

Statement of Cash Flows

for the year ended 31 March 2011

| | Note | 2010-11 £000 | Restated 2009-10 £000 |
|--|----------|-----------------|-----------------------------|
| <i>Cash flows from operating activities</i> | | | |
| Comprehensive net expenditure | | (3,037) | (5,583) |
| Non cash: depreciation | 7 | 265 | 203 |
| (Increase)/decrease in trade and other receivables | 10,11 | 319 | 401 |
| Increase/(decrease) in trade and other payables | 13,14,15 | (1,837) | 2,656 |
| Net cash outflow from operating activities | | <u>(4,290)</u> | <u>(2,323)</u> |
| <i>Cash flows from investing activities</i> | | | |
| Purchases of property, plant and equipment | | (5) | (337) |
| Purchases of intangible assets | | (59) | (120) |
| Net cash outflow from investing activities | | <u>(64)</u> | <u>(457)</u> |
| <i>Cash flows from financing activities</i> | | | |
| WCF | | 5,074 | 5,020 |
| Net financing | | <u>5,074</u> | <u>5,020</u> |
| Movements in cash and cash equivalents | 12 | <u>720</u> | <u>2,240</u> |

The notes that follow on pages 75 to 92 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

| | £000 |
|--|----------------|
| Balance at 31 March 2009 | |
| - Original | 108 |
| - Prior year adjustment | (791) |
| - Restated | <u>(683)</u> |
| Changes in taxpayers' equity in 2009-10 | |
| Total comprehensive expenditure | (5,583) |
| WCF finance | <u>5,020</u> |
| Balance at 31 March 2010 | <u>(1,246)</u> |
| Changes in taxpayers' equity in 2010-11 | |
| Total comprehensive expenditure | (3,037) |
| WCF finance | <u>5,074</u> |
| | 791 |
| Payable to WCF | <u>(629)</u> |
| Closing balance at 31 March 2011 | <u>162</u> |

Taxpayers' equity at 31 March 2010 is impacted by prior year adjustments at 31 March 2009 and during the course of 2009-10. The following note provides a reconciliation between the figure originally reported and the figure reported in the above statement:

| | Note | £000 |
|---|------|---------------------|
| Balance at 31 March 2010 (original) | | 117 |
| Prior year adjustments | | |
| - 31 March 2009 additional provision | 15 | (791) |
| - 2009-10 additional early retirement and severance provision | 15 | (747) |
| - 2009-10 release of early retirement and severance provision | 15 | <u>202</u> |
| - Early retirement and severances | | (1,336) |
| - WCF | | <u>(27)</u> (1,363) |
| Balance at 31 March 2010 (restated) | | <u>(1,246)</u> |

The notes that follow on pages 75 to 92 form part of these financial statements.

Notes

Note 1: Accounting conventions and policies

Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2010-11 FReM, issued by the relevant authorities. The accounting policies contained in the FReM apply EU adopted International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Auditor General for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Auditor General are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

- (i) The accounts are prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets where material to their value to the business by reference to their current costs, in a form directed by HM Treasury, under paragraph 13(1) of Schedule 8 of the Government of Wales Act 2006. They are presented in British pounds.
- (ii) Certain standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 April 2011 or later periods, but they have not been adopted early. None of these standards are expected to have a material impact on these financial statements.
- (iii) Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT.
- (iv) Operating income, whether derived from direct government grant or fees generated from audited bodies, is credited to the year of account in which the work is done. Income received in advance of the work being done is classed as deferred income. Funding drawn from the WCF is not direct government grant and is credited directly to taxpayers' equity.
- (v) Costs incurred on audit work (ie, staff and contractor firm costs) have been directly attributed to the relevant activity; expenditure is then charged against unallocated funding from the WCF; and unallocated overheads are attributed to each activity based on the value of the activity.
- (vi) The PCSPS is an unfunded multi-employer defined benefit scheme to which both employee and employer contribute. The Auditor General recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of the amounts calculated on an accruing basis.
- (vii) Operating lease rentals are charged on a straight-line basis over the lease term. Lease incentives received are recognised in the Statement of Comprehensive Net Expenditure as an integral part of the total lease expense. Where the Wales Audit Office enjoys the benefit of rent-free periods in leases, that benefit is credited evenly over the period from the inception of the lease until the first rent review.

- (viii) Intangible assets, which are software licences, are stated at amortised historic cost. The assets are amortised on a straight-line basis over the shorter of the term of licence or useful economic life. Amortisation is calculated from the date the intangible asset commences its useful life.
- (ix) Depreciation is provided on all property, plant and equipment assets calculated to write off the cost, less estimated residual value, of each asset in equal annual instalments over its expected useful life as follows:

| | |
|------------------------|----------|
| Furniture and fittings | 10 years |
| Computer equipment | 3 years |
| Office equipment | 5 years |

Under the Auditor General's capitalisation policy, individual and grouped computer equipment and software in excess of £5,000; other equipment in excess of £1,000 and office refurbishments are capitalised. Depreciation is calculated from the date the asset commences its useful life.

- (x) Receivables and work in progress are valued at estimated realisable value. Work in progress relates to amounts due on completed work where the fee is yet to be issued or where work done falls into different account periods. This is stated at full cost less provision for foreseeable losses and amounts billed on account. A provision for non-payment of debts is made in the accounts based on a probability of 10 per cent of debts older than 60 days becoming irrecoverable.
- (xi) A provision for future leasehold property dilapidations is established in the Statement of Financial Position. This is built up through an annual dilapidations charge, calculated by applying an annual dilapidation rate to the floor area of the leased assets.

- (xii) Deferred income represents income that has been billed but not yet recognised. This is calculated by assessing the percentage completion of projects, recognising that proportion of expected fee income as revenue in the period with unrecognised, billed income being treated as deferred income.
- (xiii) The preparation of the financial statements requires various estimates and assumptions to be made that affect the application of accounting policies and reported amounts. All such estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The most significant areas of estimation and critical judgements are:

- Provisions for redundancies and severances are based on projections of expected future pension payments.
 - Work in progress is valued at the percentage of completion of unbilled work. Deferred income is calculated based on an assessment of project completion, as explained above.
 - A provision for bad and doubtful debts is calculated as 10 per cent of debts that are older than 60 days.
 - Material non-current assets are reviewed annually to assess if they have suffered any impairment.
- (xiv) Events after the statement of Financial Position date that may require disclosure or adjustment in accordance with the requirements of IAS 10 are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date on which the Independent Auditor's report is signed.

Note 2: Analysis of net expenditure by segment

The income, financing and costs of the Wales Audit Office's activities for 2010-11 are summarised in the following table:

| | Local government audit | Local government grant certification | NHS | Central government | Activities funded by WCF | Total |
|-----------------------------|------------------------------|---|----------------|-----------------------|--------------------------------|-----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Income and financing | | | | | | |
| Audit fees | 9,685 | 1,870 | 4,181 | 1,604 | | 17,340 |
| Grant | 1,836 | | | | | 1,836 |
| WCF finance | | | | | 5,047 | 5,047 |
| Total | 11,521 | 1,870 | 4,181 | 1,604 | 5,047 | 24,223 |
| Expenditure | (10,651) | (1,459) | (3,697) | (1,604) | (5,047) | (22,458) |
| | 870 | 411 | 484 | 0 | 0 | 1,765 |

Reconciliation to Statement of Comprehensive Net Expenditure

| | |
|---|----------------|
| Per above analysis | 1,765 |
| WCF resource | (5,047) |
| Corporation tax | (13) |
| Interest receivable | 8 |
| Other income | 250 |
| Per Statement of Comprehensive Net Expenditure | (3,037) |

Figures for 2009-10 were as follows:

| | Income and financing | Expenditure | Net expenditure |
|--------------------|---------------------------------|--------------------|----------------------------|
| | £000 | £000 | £000 |
| Central government | 6,774 | (6,785) | (11) |
| Local government | 12,973 | (12,964) | 9 |
| Health | 5,881 | (5,870) | 11 |
| Totals | 25,628 | 25,619 | 9 |

Note 3: Other operating income

| | Year to 31 March 2011 £000 | Year to 31 March 2010 £000 |
|--|---|---|
| Legal costs reimbursed | 3 | 0 |
| Publications and conferences | 0 | 17 |
| Secondments of Wales Audit Office staff to other organisations | 94 | 344 |
| Sundry income | 153 | 10 |
| | 250 | 371 |

Note 4: Staff and associated costs

| | Year to 31 March 2011 £000 | Year to 31 March 2010 £000 |
|---|-------------------------------------|-------------------------------------|
| (i) Staff costs | | |
| Staff salaries | 10,702 | 11,370 |
| ARMC member salaries | 32 | 27 |
| Social security costs | 1,045 | 1,033 |
| Pension costs | 2,135 | 2,864 |
| | <hr/> 13,914 | <hr/> 15,294 |
| Car scheme | 684 | 777 |
| Subscriptions and other benefits | 48 | 45 |
| | <hr/> 14,646 | <hr/> 16,116 |
| Audit and inspection contractors | 887 | 725 |
| | <hr/> 15,533 | <hr/> 16,841 |
| Redundancy, early retirement and severance costs | 553 | 1,420 |
| | <hr/> 16,086 | <hr/> 18,261 |
| Included in salaries are costs of staff seconded to other organisations | 438 | 344 |

More detailed information in respect of the remuneration and pension entitlements of the senior management is shown in the Remuneration Report on pages 56 to 60.

Wales Audit Office staff are eligible to join the PCSPS. This is an unfunded multi-employer defined benefit scheme but the Wales Audit Office is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2010. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Employer contribution rates are based on salary levels and contribution rates vary between 16.7 per cent to 24.3 per cent (2009-10: 16.7 per cent to 24.3 per cent). Total employer contributions amounted to £2,129,000 (2009-10: £2,317,000). The scheme's actuary reviews employer contributions every four years following a full scheme revaluation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. During the year, one employee took advantage of this option.

| | Year to 31 March 2011 | Year to 31 March 2010 |
|--|-----------------------------|-----------------------------|
| (ii) Staff numbers | | |
| Average number of full-time-equivalent, UK-based, permanent staff employed during the year | 228 | 242 |
| Audit and inspection contractors (average in year) | 17 | 21 |

The Wales Audit Office uses a number of temporary audit and inspection contractors at certain times in the year to meet demand for resources at peak times.

Note 5: Redundancies, early retirements and severances

A number of employees left under exit packages during 2010-11 and 2009-10 as summarised below:

| Exit package cost band | 2010-11 | | | 2009-10 | | |
|------------------------|-----------------------------------|-----------------------------------|--|-----------------------------------|-----------------------------------|--|
| | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band |
| Less than £10,000 | | 1 | 1 | | | |
| £10,000 – £25,000 | | 2 | 2 | | 1 | 1 |
| £25,000 – £50,000 | | 5 | 5 | | | |
| £50,000 – £100,000 | | 1 | 1 | | | |
| £100,000 – £150,000 | | 6 | 6 | | | |
| £200,000 – £250,000 | | | | | 1 | 1 |
| £300,000 – £350,000 | | 1 | 1 | | | |
| £700,000 – £750,000 | | | | 1 | | 1 |

The Wales Audit Office operated a voluntary severance scheme during 2010-11. This scheme was the result of workforce planning and has resulted in reductions to the cost base of the Wales Audit Office.

Early retirement and departure costs have been paid in accordance with Wales Audit Office policy, which has been agreed with recognised trade unions. Additional costs not met by the PCSPS are met by the Wales Audit Office.

Note 6: Bought-in services

| | Year to 31 March 2011 £000 | Year to 31 March 2010 £000 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Payments to private accountancy firms | 3,264 | 3,880 |
| Research and other consultancy costs | 115 | 216 |
| | 3,379 | 4,096 |

These costs relate to services bought in by the Auditor General that directly relate to audit, inspection or research functions.

Note 7: Other operating costs

| | Year to 31 March 2011 £000 | Year to 31 March 2010 £000 |
|--|-------------------------------------|-------------------------------------|
| Accommodation | | |
| - Rent lease costs | 402 | 455 |
| - Other costs | 369 | 393 |
| Supplies and services | 1,227 | 1,691 |
| Recruitment and transfers | 33 | 15 |
| Depreciation | 265 | 203 |
| Audit fee | 25 | 13 |
| Professional fees | 251 | 158 |
| Travel and subsistence | 448 | 528 |
| Training | 226 | 206 |
| Increase/(decrease) in provision for bad debts | (253) | 144 |
| | 2,993 | 3,806 |

Professional fees represent legal and other professional fees and during 2010-11 include non-recurring exceptional costs.

Note 8: Property, plant and equipment

| | Furniture and fittings | Information technology | Office equipment | Total |
|-----------------------------------|---------------------------|---------------------------|---------------------|-------|
| | £000 | £000 | £000 | £000 |
| <i>Cost</i> | | | | |
| At 31 March 2010 | 918 | 884 | 36 | 1,838 |
| Additions | 7 | 1 | 0 | 8 |
| Disposals | (5) | 0 | (4) | (9) |
| Reclassified to intangible assets | 0 | (625) | 0 | (625) |
| At 31 March 2011 | 920 | 260 | 32 | 1,212 |
| <i>Depreciation</i> | | | | |
| At 31 March 2010 | 214 | 332 | 24 | 570 |
| Provided in period | 91 | 142 | 4 | 237 |
| Disposals | (3) | (0) | (4) | (7) |
| Reclassified to intangible assets | 0 | (334) | 0 | (334) |
| At 31 March 2011 | 302 | 140 | 24 | 466 |
| <i>Net book value</i> | | | | |
| At 31 March 2011 | 618 | 120 | 8 | 746 |
| At 31 March 2010 | 704 | 552 | 12 | 1,268 |
| <i>Asset financing</i> | | | | |
| Owned | 618 | 120 | 8 | 746 |

| | Furniture and fittings | Information technology | Office equipment | Total |
|------------------------|-----------------------------------|-----------------------------------|-----------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| <i>Cost</i> | | | | |
| At 31 March 2009 | 843 | 653 | 27 | 1,523 |
| Additions | 76 | 252 | 9 | 337 |
| Disposals | (1) | (21) | 0 | (22) |
| At 31 March 2010 | 918 | 884 | 36 | 1,838 |
| <i>Depreciation</i> | | | | |
| At 31 March 2009 | 127 | 244 | 18 | 389 |
| Provided in period | 88 | 109 | 6 | 203 |
| Disposals | (1) | (21) | 0 | (22) |
| At 31 March 2010 | 214 | 332 | 24 | 570 |
| <i>Net book value</i> | | | | |
| At 31 March 2010 | 704 | 552 | 12 | 1,268 |
| At 31 March 2009 | 716 | 409 | 9 | 1,134 |
| <i>Asset financing</i> | | | | |
| Owned | 704 | 552 | 12 | 1,268 |

In the opinion of the Auditor General, there is no material difference between the net book value of assets at current values and at their historical cost.

Note 9: Intangible assets

Intangible assets are software licences.

| | Total |
|-----------------------------|--------------|
| | £000 |
| <i>Cost</i> | |
| At 31 March 2010 | 120 |
| Additions | 59 |
| Reclassified from IT assets | 625 |
| At 31 March 2011 | <u>804</u> |
| <i>Amortisation</i> | |
| At 31 March 2010 | 0 |
| Provided in period | 28 |
| Reclassified from IT assets | 334 |
| At 31 March 2011 | <u>362</u> |
| <i>Net book value</i> | |
| At 31 March 2011 | <u>442</u> |
| At 31 March 2010 | <u>120</u> |

| | Total |
|-----------------------|--------------|
| | £000 |
| <i>Cost</i> | |
| At 31 March 2009 | 0 |
| Additions | 120 |
| At 31 March 2010 | <u>120</u> |
| <i>Amortisation</i> | |
| At 31 March 2009 | 0 |
| Provided in period | 0 |
| At 31 March 2010 | <u>0</u> |
| <i>Net book value</i> | |
| At 31 March 2010 | <u>120</u> |
| At 31 March 2009 | <u>0</u> |

Note 10: Trade receivables and work in progress

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|--------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Trade receivables | | | |
| – Central government | 91 | 173 | 134 |
| – Local government | 495 | 542 | 825 |
| – NHS | 402 | 715 | 221 |
| Work in progress | | | |
| – Central government | 355 | 420 | 486 |
| – Local government | 211 | 151 | 346 |
| – NHS | 52 | 26 | 344 |
| | <hr/> 1,606 <hr/> | <hr/> 2,027 <hr/> | <hr/> 2,356 <hr/> |

Bad and doubtful debt provisions (these are netted against the appropriate class of debtor in the above analysis):

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|---------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Opening provision | 280 | 136 | 89 |
| Provision made/(released) in the year | (253) | 144 | 47 |
| Closing provision | <hr/> 27 <hr/> | <hr/> 280 <hr/> | <hr/> 136 <hr/> |

Note 11: Other receivables

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|--------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Other receivables | 104 | 294 | 376 |
| Prepayments and accrued income | 453 | 159 | 137 |
| Loans to employees | 5 | 7 | 19 |
| | <u>562</u> | <u>460</u> | <u>532</u> |

Amounts falling due after one year included in the above figures:

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Included in other debtors: | | | |
| – Housing relocation scheme: advances to staff | <u>3</u> | <u>5</u> | <u>14</u> |

The receivables balances in Notes 10 and 11 can be analysed into the following categories:

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Central government bodies | 845 | 612 | 651 |
| Local government bodies | 744 | 736 | 1,171 |
| NHS bodies | 456 | 755 | 565 |
| Balances with bodies external to government | 123 | 384 | 501 |
| | <u>2,168</u> | <u>2,487</u> | <u>2,888</u> |

Note 12: Cash and cash equivalents

| | 2010-11 £000 | 2009-10 £000 |
|---|-------------------------------|-------------------------------|
| Balance at 1 April | 3,296 | 1,056 |
| Net change in cash and cash equivalents | <u>720</u> | <u>2,240</u> |
| Balance at 31 March | <u>4,016</u> | <u>3,296</u> |

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|----------------------|---|---|---|
| Current account | 3,060 | 2,344 | 759 |
| Euro account | 1 | 1 | 0 |
| Global Sterling Fund | 955 | 951 | 297 |
| | <u>4,016</u> | <u>3,296</u> | <u>1,056</u> |

The Current account includes an overnight interest bearing facility. The Euro account is maintained to simplify occasional overseas transactions.

The Global Sterling Fund is provided by the RBS Group. This fund aims to protect capital balances even in times of financial instability within the financial markets, whilst offering a wholesale money market return. The fund is structured to ensure that the highest credit ratings are maintained, namely AAA rated or equivalent with Standard & Poor, Fitch and Moody rating agencies.

Note 13: Trade payables and other current liabilities

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Trade payables | 47 | 175 | 168 |
| VAT | 330 | 226 | 368 |
| Accrual for holiday entitlement not yet taken | 696 | 558 | 420 |
| Other accruals | 598 | 625 | 549 |
| | <hr/> 1,671 | <hr/> 1,584 | <hr/> 1,505 |

Note 14: Deferred income

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|-----------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Deferred income | 3,329 | 4,702 | 3,368 |
| | <hr/> 3,329 | <hr/> 4,702 | <hr/> 3,368 |

In accordance with accounting standards, we are required to assess the percentage completion of projects and recognise that proportion of expected fee income as revenue in the period. Deferred income represents income that has been billed but not yet recognised.

Deferred income at 31 March 2011 includes a sum of approximately £400,000 that has been refunded to audited bodies since that date.

The payable balances in Notes 13 and 14 can be analysed into the following categories:

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Central government bodies | 125 | 66 | 74 |
| Local government bodies | 1,686 | 2,711 | 2,197 |
| NHS bodies | 1,567 | 1,931 | 1,208 |
| Public corporations | 0 | 0 | 17 |
| Balances with bodies external to government | 1,622 | 1,578 | 1,377 |
| | <hr/> 5,000 | <hr/> 6,286 | <hr/> 4,873 |

Note 15: Provisions for liabilities and charges

| | Dilapidations | Early retirement and severance | Totals |
|---|---------------|--------------------------------|--------|
| | £000 | £000 | £000 |
| 1 April 2009 | | | |
| - Original | 97 | 0 | 97 |
| - Prior year adjustment | 0 | 791 | 791 |
| - Restated | 97 | 791 | 888 |
| Provided in 2009-10: | | | |
| - Original | 48 | 715 | 763 |
| - Prior year adjustment | 0 | 747 | 747 |
| - Restated (where applicable) | 48 | 1,462 | 1,510 |
| Provisions utilised in year | | | |
| - Original | (65) | 0 | (65) |
| - Prior year adjustment | 0 | (202) | (202) |
| - Restated (where applicable) | (65) | (202) | (267) |
| 31 March 2010 (restated) | 80 | 2,051 | 2,131 |
| <i>Provided in year</i> | 38 | 406 | 444 |
| Provisions utilised in year | 0 | (994) | (994) |
| 31 March 2011 | 118 | 1,463 | 1,581 |
| Analysis of expected timing: | | | |
| Not later than one year | 0 | 458 | 458 |
| Later than one year and not later than five years | 118 | 825 | 943 |
| Later than five years | 0 | 180 | 180 |
| Totals | 118 | 1,463 | 1,581 |

The dilapidations provision represents an estimate of the costs the Wales Audit Office may incur in making good its leased properties at the end of the leases. Dilapidations are calculated by applying an annual dilapidation rate to the floor area of the leased asset.

The early retirement and severance provisions represent the future liability of the Wales Audit Office in respect of members of staff who have left under redundancy, early retirement and severance schemes.

Note 16: Financial commitments

There were revenue commitments at 31 March 2011 in respect of non-cancellable car leases which expire:

| | 31 March 2011 £000 | 31 March 2010 £000 |
|--------------------------|-----------------------------------|-----------------------------------|
| Within one year | 51 | 10 |
| Within one to five years | 419 | 582 |
| | <hr/> 470 <hr/> | <hr/> 592 <hr/> |

There were revenue commitments at 31 March 2011 in respect of office accommodation leases which expire:

| | 2011 £000 | 2011 Number of properties | 2010 £000 | 2010 Number of properties |
|------------------------|----------------------|--|----------------------|--|
| Within one year | 0 | 0 | 0 | 0 |
| From one to five years | 231 | 3 | 135 | 2 |
| Over five years | 4,293 | 1 | 4,825 | 2 |
| | <hr/> 4,524 <hr/> | <hr/> 4 <hr/> | <hr/> 4,960 <hr/> | <hr/> 4 <hr/> |

Office accommodation leases are subject to periodic rent reviews.

Note 17: Losses and special payments

Special payments:

A number of employees left under voluntary and early retirement schemes during 2010-11 and 2009-10, as disclosed in Notes 4(i) and 5.

Losses:

A payment of £1,080 was made for training provided to Mr Anthony Snow after his last effective day of service with the Wales Audit Office. No economic value was derived from the payment by the Wales Audit Office.

There were no other disclosable losses or special payments in 2010-11 or 2009-10.

Note 18: Derivatives and financial instruments

IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Owing to the nature of the Auditor General's activities and the way in which the operations are financed, the office is not exposed to a significant level of financial risk. Although the Auditor General can borrow funds, the office has not been required to do so in this financial year. The Auditor General can also invest surplus funds, which is done through an overnight interest bearing account and in the Global Sterling Fund (see Note 12). These activities do not give rise to any significant financial risk.

Liquidity risk

Given the nature of our business, our tolerance of risk in areas of financial management is low. In light of this attitude, and the backing of the WCF, the Auditor General is not exposed to significant liquidity risks.

Interest rate risk

The Auditor General's financial assets and liabilities, with the exception of investment income, are not exposed to interest rate risk.

Foreign currency risk

The Auditor General's exposure to foreign currency risk is negligible as only very small forward purchases of foreign currency are made in connection with foreign travel and other associated costs such as hotels. Also, any fees generated from foreign work or secondments are translated when received. Any exchange differences are recorded in the Statement of Comprehensive Income for the year in arriving at the operating surplus.

Fair values

There is no difference between the book values and fair values of the Auditor General's financial assets and liabilities as at 31 March 2011 (31 March 2010: nil).

Note 19: Contingent liabilities

The Auditor General has continued to apply the VAT treatments adopted by predecessor bodies, namely the Audit Commission in Wales and the National Audit Office in Wales. Discussions have been ongoing with HM Revenue and Customs for a number of years to confirm the Auditor General's VAT status and to determine the appropriate status of his VAT supplies. It is not possible at present to determine whether any liability will crystallise, and if so, what the likely quantum of such a liability might be. Were a significant liability to crystallise, the Auditor General would need to obtain funding from the WCF or from additional audit fees to meet that liability.

Note 20: Related party transactions

The Auditor General is a corporation sole established under statute and has had a number of material transactions with the WCF and with his audited bodies and the bodies audited by his appointed auditors.

During the year, no members of the ARMC, nor key members of staff nor their related parties had undertaken any material transaction with the Auditor General.

Note 21: Prior year adjustments

The following adjustments have been made to the figures previously reported for 2009-10:

Welsh Consolidated Fund financing

This financing of £5,047,000 was incorrectly included as income in the 2009-10 Statement of Comprehensive Income. This financing has been reclassified to taxpayers' equity and the 2009-10 comparative figures have been restated accordingly. That financing figure incorrectly included a receivable of £27,000 for cash not drawn from the WCF, which has been excluded from WCF finance and debtors in these statements.

Provision for early retirements

Full provisions for the costs of early retirements and severances were not included in the accounts for 2009-10 and earlier years. A prior year adjustment has been made in the 2010-11 accounts to correct for this omission. This is reflected through Note 15, provisions, and the Statement of Taxpayers' Equity, which disclose the financial impact of making this prior year adjustment.

Cost of capital

As required by HM Treasury, figures for 2009-10 have been restated to remove the notional cost of capital charge in accordance with changes to the Financial Reporting Manual. The charge of £4,000 made in 2009-10, and the corresponding reversal of that charge in the year (£4,000), have been excluded from the comparative figures in these accounts.

Report of the Auditor General for Scotland to the National Assembly for Wales

Introduction

1. I submit these accounts and my audit certificate, together with this report, which I have prepared under the Government of Wales Act 2006. The audit opinions on the accounts for the year ended 31 March 2011 are not qualified. My audit certificate includes my opinion that the financial statements give a true and fair view in accordance with the Government of Wales Act 2006 and directions made thereunder by HM Treasury. It also includes my opinion that the expenditure and income shown in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform with the authorities that govern them.

Background to the Report

2. During 2010/11 the Public Accounts Committee of the National Assembly for Wales held a number of hearings into the 2009/10 accounts of the Auditor General for Wales and related matters, which culminated in their report of March 2011 titled "Accounting, governance and propriety issues at the Wales Audit Office".
3. As part of my audit of the 2010/11 accounts I have considered how the recommendations of the Public Accounts Committee in relation to the 2009/10 accounts have been addressed and I record my findings in this report.
4. To remedy the failings that occurred in previous financial statements the Committee recommended that:
 - the Wales Audit Office should seek an **updated accounts direction** from HM Treasury **to reflect the passing of the Government of Wales Act 2006**, the establishment of the Welsh Consolidated Fund, and the statutory requirement for expenditure by the Wales Audit Office to be authorised by a budget motion of the Assembly;
 - **the 2010/11 accounts should comply fully with** the revised accounts direction and the Financial Reporting Manual taking account of all the previous **accounting and reporting issues raised** by the National Audit Office and others; and
 - in particular, **the 2009/10 comparative figures to be** shown in the 2010-11 accounts should be **restated** with a note confirming the excess expenditure for that year. It is for the Auditor General to decide how and over what period the resulting negative reserves should be restored but his plans for doing so should also be disclosed.
5. Below, I consider each of these recommendations in turn.

Updated accounts direction to reflect the passing of the Government of Wales Act 2006

6. A new accounts direction was requested from HM Treasury in December 2010, with a draft received in January 2011. Following consultation with the Welsh Government, the National Assembly for Wales and Audit Scotland a final direction was issued in June 2011.
7. A key element of this recommendation was the adoption of a new primary statement, the Summary of Resource Outturn, which records the outturn against the use of resources authorised by a budget motion of the Assembly. This year this new statement demonstrates that the Auditor General's expenditure for 2010/11 was within the resource and cash limits established by the relevant budget motion of the National Assembly for Wales. The accounts of the Auditor General cover local authority activity, which is not part of the budget motion, and central government and NHS activity which is the basis for the budget motion. The accounting policy on cost allocation is, therefore, fundamental in determining the budget and presenting the outturn position.
8. In line with recommendations from the National Audit Office and others, the cost allocation accounting policy has been updated to clarify the practice in this area, confirming the accounting principles that have been consistently applied in drawing up budgets and reporting outturn in 2010/11 and previous years. However, it is also recognised that these arrangements need to be reviewed going forward so that the approach to cost allocation and therefore compliance with the fee setting provisions of the Government of Wales Act 2006 can be transparently demonstrated from the budget submission of the Auditor General for Wales through to the budget motion of the Assembly and subsequent financial reporting.
9. The implementation of the new accounts direction also ensured that funding from the National Assembly for Wales was correctly brought to account as a movement on reserves rather than as income, as had been the case previously.

The 2010/11 accounts should comply fully with accounting and reporting issues raised

10. There were a number of detailed recommendations arising from the reports by the National Audit Office and the Wales Audit Office internal audit. The recommendations relating to the 2010/11 accounts covered the restatement of figures to account for pension commitments in line with accounting standards (see below); disclosure of the remuneration of the Auditor General for Wales; a review of the accounting for bad debts; and the governance and review arrangements incorporated in the accounts preparation process. All recommendations relating to the 2010/11 accounts have been implemented, with one exception, relating to accounting for the remuneration of the Auditor General for Wales.

11. The National Audit Office recommended enhanced disclosure of the remuneration of the Auditor General for Wales in the Remuneration Report and the inclusion of the costs in the accounts themselves; in making this latter recommendation the National Audit Office recognised that, because the costs are met directly by the Welsh Consolidated Fund, there would need to be various notional entries and reconciliations in the accounts. I concur with the Wales Audit Office's view that enhanced disclosure in the Remuneration Report was appropriate and sufficient; and that to include notional entries in line with the National Audit Office's recommendation would have added unnecessary complexity.

The 2009/10 comparative figures to be restated

12. The 2009/10 figures have been restated to account for early retirements in line with accounting standards. This required a total Prior Period Adjustment of £1.336 million compared to the position previously reported. The reserves position at 31 March 2010 is a deficit of £1.246 million, in comparison with the previously reported position of a surplus of £0.117 million. In accordance with accountability rules for the National Assembly for Wales, a Prior Period Adjustment relating to the use of resources is brought to account in the Summary of Resource Outturn for 2010/11, it having not been brought to account in previous years. Applying the cost allocation accounting policy (see paragraph 8 above), £0.544 million of the total Prior Period Adjustment is brought to account in the Summary of Resource Outturn, being the share attributable to Central Government and NHS work. Taken together with an appropriate share of capital expenditure, the total resource outturn remains within the limit of £5.047 million established by the 2010/11 Budget Motion. The net cash requirement also remains within the corresponding limit of £5.074 million. The accounts show that £0.629 million is repayable to the Welsh Consolidated Fund.
13. The resulting net reserves position at 31 March 2011 is available reserves of £0.162 million. The turn around from the restated deficit position of £1.246 million at 31 March 2010 reflects the significant reduction in net expenditure in 2010/11 compared to the previous year.
14. Comparative figures for the Summary of Resource Outturn for 2009/10 are not included. This reflects that, in previous years, capital expenditure was not separately identified in either the budget or the outturn against budget reported in the accounts. This issue will be considered in the review of the budgeting and reporting identified at paragraph 8.

Conclusions

15. The recommended actions arising from the reviews undertaken and the report of the Public Accounts Committee in relation to the preparation of the 2010/11 accounts of the Auditor General for Wales have been implemented. These included: HM Treasury issuing a new accounts direction; the restatement of 2009/10 accounts figures, in particular to account properly for pension liabilities; and the adoption of a resource accounting format.
16. Further development of budgeting and cost allocation arrangements is underway as part of the preparation for the submission of the Auditor General for Wales' budget for 2012/13. This should improve the basis for estimates, financial reporting and accountability in future years.



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