

Wales Audit Office

Audit findings report
year ended 31 March 2021

24 June 2021



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Executive Summary

This report summarises our key findings in connection with the audit of the financial statements of Wales Audit Office in respect of the year ended 31 March 2021.

The scope of our work was communicated to you via our Audit Plan document. We believe that the audit approach adopted will provide the Audit and Risk Assurance Committee with the required confidence that a thorough and robust audit has been carried out. Our audit work is complete and we will issue an unmodified audit opinion on the financial statements in line with the agreed timetable.

Unadjusted audit misstatements

We have identified no unadjusted audit misstatements that would impact the result for the period. All identified audit misstatements were adjusted for. A full list of these are included in the Appendix.

Final materiality

Materiality was determined based on 2% of expenditure for the year.

Disclosure misstatements and omissions

There are no disclosure matters which have not been adjusted by management in the financial statements. A full list of adjusted disclosure items is included in the Appendix.

Risks identified at the planning stage

Risk	Description	Response	Findings
Revenue recognition - WIP and deferred Income	The recognition of income, WIP and deferred income is considered to be a significant risk due to the level of judgement applied to the stage of completion of an audit assignment and any provisions required.	<p>We will:</p> <ol style="list-style-type: none"> 1. Select a sample of projects that have commenced throughout the year and test the revenue recognised with reference to the stage of completion of the assignment in order to determine that the revenue recognition is appropriate and consequently whether the WIP and deferred income are appropriately stated. 2. Review correspondence with audit managers to establish the estimated costs to complete and any required provisions at the year end, considering the impact of any time spent after the year end on these estimations. 3. Review time postings after the year end for any time posted by employees relating to work done before the year end that may not have been factored into the above calculations. <p>Evaluate projects that are reasonably expected to be concluded at a deficit, and confirm that an appropriate provision has been recorded in the financial statements</p>	<p>Our work indicated that the organisation has appropriate systems for assessing the stage of completion of its ongoing contracts, and hence for determining the amount of revenue that should be reported at the year end.</p> <p>As well as testing a sample of 2021 year end audits, we have also revisited our testing from the prior period to assess whether the judgements and estimates made were reliable. We noted that, based on the sample selected in 2020, the assessments generally underestimated the required costs to complete the relevant audits. While a £131k cost provision was recorded in 2020, which contained an element of COVID-19 contingency, our follow up analysis indicated that this should have been increased to a potential total of £261k (an additional £130k provision). As at 31 March 2020, the full impact of COVID-19 was clearly unknown, and we do not believe the amount involved is material. Costs to complete assessments represent an estimate and therefore will always contain an element of judgement. Based on our 2021 testing, we do not believe there is any similar understatement in associated provisions, nor has there been any similar COVID-19 contingency.</p> <p>During our testing, we noted a minor formula error in the costs to complete provision calculations which had a c£21k impact on the originally reported result. This has been updated in the financial statements. Similarly, an adjustment has been recorded to reclassify debit and credit balances on the Statement of Financial Position. This adjustment has no impact on the reported result.</p> <p>We have tested the reliability of the underlying time recording system and did not note any errors in our sample testing with the completeness or accuracy of the data.</p> <p>Where deficits are expected on audits, we have noted no errors on the calculation of such provisions.</p>

Risk	Description	Response	Findings
Management override of internal controls	<p>In any organisation there will be an extent to which management can bypass internal controls. By definition, there can be no controls over this risk and this is specifically stated in International Standards on Auditing: 240. Such override, if exercised, could give rise to material fraud or misstatement in the financial statements.</p> <p>Additionally, there is a risk that the internal control environment has been impacted by remote working brought on due to COVID-19.</p>	<p>We will:</p> <ol style="list-style-type: none"> 1. Discuss and consider segregation of duties within the established control environment 2. Review controls over journal entries and, using data analytics and based on our risk assessment, test a sample of journals to ensure that they are valid and appropriately supported. 3. Obtain an understanding of the business rationale of significant transactions that we become aware of during the audit process that appear to be outside the normal course of business or that appear to be unusual, given our understanding of the entity's operating environment. <p>Consider estimates and judgements made by management in the preparation of the statutory accounts and conclude on their appropriateness.</p>	<p>The testing was completed as planned with no significant issues identified to report to management.</p> <p>We have tested a sample of the journal entries posted during the year, and this did not highlight any erroneous entries, or items indicative of management bias.</p> <p>We have reviewed the significant estimates adopted in the preparation of the financial statements, such as provisions as they relate to revenue, dilapidations or redundancies, and we have not identified any areas where there appears to be indication of management bias.</p> <p>The results of our bespoke data analytic testing are reported on in a later section of this report.</p>
Reputational risk	<p>Given the public interest in the financial statements, there is a risk that accounting judgements may be influenced by the desire to demonstrate good financial management and remain within the estimate.</p>	<p>We will:</p> <ol style="list-style-type: none"> 1. Undertake internal specialist technical reviews of both the accounts and also our audit work including regularity, given the increased reputational risk associated with the audit. <p>Review the judgemental aspects of year-end balances, particularly focusing on any round sum provisions, estimates, recoverability of debtors, disclosure of remuneration and related party transactions.</p>	<p>During the course of the audit, we have not identified any areas from the Wales Audit Office's operations that suggests there are any matters whereby the reputation could appear to be significantly damaged. We have not noted any areas of inappropriate activity, or areas where the Office has been acting inappropriately.</p> <p>We are satisfied that there appears to be appropriate disclosure of the remuneration of directors and senior management.</p> <p>Our conclusions on our regularity reporting are discussed later in this report.</p>

Risk	Description	Response	Findings
Change in audit report	<p>For all audits of financial periods commencing on or after 15 December 2019, auditors are required to explain in the auditor's report to what extent the audit was considered capable of detecting irregularities, including fraud. The explanation is expected to cover how the auditor has assessed the risk of material misstatement in respect of irregularities, including fraud and Non-Compliance with Laws and Regulations (NOCLAR), and the auditor's approach to responding to those risks as part of the audit.</p> <p>Additionally, the implementation of ISA 570 (UK) Revised Going Concern has brought about a number of significant changes to the responsibilities of the auditor in relation to going concern, including enhanced risk assessment and increased challenge and work effort. Further details of the changes to the standard can be found here. As a result of the new standard, there is a greater emphasis on the quality of assessments produced by management in respect of going concern.</p>	<p>We will:</p> <ol style="list-style-type: none"> 1. Assess the legal and regulatory framework of the entity, by discussing such matters with management, reviewing board minutes, reviewing the risk register and discussing any key matters with the Internal Auditors and management's internal experts. 2. Disclose our procedures to identify and assess the risk of material misstatement in respect of irregularities including fraud, and the most significant laws and regulations determined, and the areas identified as being susceptible to material misstatement due to fraud in our audit report. <p>Specific to ISA 570 and our work on going concern, we will consider:</p> <ol style="list-style-type: none"> 1. The forward-looking assumptions used by management in their assessment relating to going concern. 2. Management's sensitivity analysis to reasonably possible changes in their assumptions, including downsides. 3. Management's scenario analysis and contingency plans. 4. Supporting evidence provided by management for their assumptions, and related disclosures, and challenge where necessary. <p>Appropriateness of related disclosures in the financial statements, depending on the degree of sensitivity to changes in assumptions and whether there is a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.</p>	<p>The draft audit reports have been updated to reflect our new reporting requirements. We have specifically highlighted the direct and indirect laws and regulations that have significant impact on the financial statements, being the Government Financial Reporting Manual (FRoM), the Public Audit of Wales Act 2013 and GDPR.</p> <p>We have also reported what we consider to be the fraud risks of the Wales Audit Office. We believe these to be:</p> <ul style="list-style-type: none"> • Management override of internal controls • Fraud risk in revenue recognition <p>Our conclusions specific to these areas have been commented on in earlier sections of this report. Our enhanced opinion on going concern has also been reflected in the audit reports, and the work to support these opinions complete, subject to our review procedures. We have reviewed the published Estimate for 2022 and have found the underlying assumptions to be reasonable estimates based on current performance and known changes. We also note that the Auditor General for Wales remains a statutory office and requires appropriate funding. We believe the disclosures in the financial statements regarding going concern to be appropriate.</p>

Other matters identified during the audit

Issue	Response
<p>During our regularity audit, we noted that at the May 2020 board meeting, 4 non-executive directors were in attendance, plus 3 executive directors and the Auditor General. Therefore there appears to have been an equal number of executive and non-executive directors in attendance, which appears in contrary to the Public Audit (Wales) Act 2013, which states that in order for the board meeting to meet the Quorum requirement, the majority of members present at Board meetings must be non-executive directors (Schedule 1, part 7, section 28).</p> <p>According to the minutes of the meeting, Kevin Thomas attended the meeting as a Director of Corporate Services rather than as an executive board member. It was therefore established that a majority of non-executives were in attendance and the meeting was quorate.</p>	<p>The Chair of the Wales Audit Office has taken legal advice on the matter from a third-party solicitor (Bates Wells Braithwaite). The advice concludes that the requirement per the Act is for the majority of non-executive members to be “Present” rather than “present and voting”. The advice recommends that moving forward, the Wales Audit Office updates its procedures to ask one or more employee members not to attend each meeting if needed, to ensure that there is a majority of non-executive members present. We also note that the Wales Audit Office have requested Schedule 1 PAWA 2013 is amended by the Welsh Assembly.</p>
<p>We have noted that the Wales Audit Office has received £34k of CJRS income. We were not expecting any CJRS income to be included within the financial statements given the Wales Audit Office is a public sector entity.</p>	<p>CJRS claims were made for a handful of contractors during 2020-21 after legal advice had been taken on the applicability of this scheme for the Wales Audit Office. We have reviewed the advice and noted the application and receipt of payment for this amount. Originally classified as a deduction to staff costs, we have agreed with management to reclassify this total in the financial statements to Other Operating Income.</p>

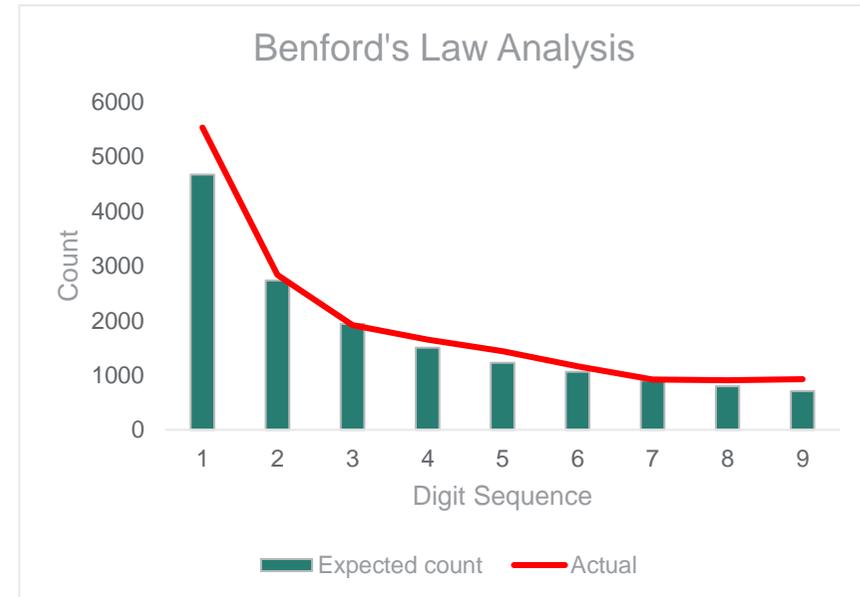
Data analysis

Benford's law

Benford's Law is a statistical observation which states that in a collection of numbers, the leading digit is likely to be small and as the number increases, the quantity decreases. Benford's Law observes that the leading digit is likely to be '1' in approximately 30% of entries, and subsequently '9' in only 5% of entries.

This allows us to help detect anomalies in data, whether from clerical errors, random chance, or manipulation. We have applied Benford's Law to all manual journal entries posted to observe whether the population follows Benford's Law as expected. The results of our testing can be seen on the graph opposite.

We have found that the journals listing is within an acceptable range of conformity. While our data analytic software did highlight a small sample of items for additional testing, however these were followed up with management and concluded to be reasonable postings. This gives us comfort over the population of journals.



Recommendations on controls

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

Assessment	Issue and risk
	<ul style="list-style-type: none"> <li data-bbox="315 600 790 632">• Review of payroll (2020 finding) <li data-bbox="842 496 1151 520">• Recommendation (2020) We have noted that variance analysis is prepared on monthly payroll costs, however this analysis does not contain a set variance that would require investigation and is instead up to the preparer to determine what constitutes a difference worth investigating. Additionally, while the ultimate payment of the payroll is subject to a review, there is no line by line documented review of the payroll, other than this variance analysis. <li data-bbox="842 679 1014 703">• 2021 update We have confirmed that the review process has been revised to include documentation as suggested above.
	<ul style="list-style-type: none"> <li data-bbox="315 898 736 930">• Procurement (2020 finding) <li data-bbox="842 767 1151 791">• Recommendation (2020) As part of our regularity work, we have noted that one item in our procurement sample did not obtain the required number of quotes. We understand that there had been a change in the staff responsible for obtaining these quotes and managing the process. We would recommend that staff training in this area is revisited, and that there is a periodic review of the contracts schedule to ensure the correct number of quotes were sought, with supporting evidenced retained. <li data-bbox="842 975 1014 999">• 2021 update We have tested a sample of procurement tenders and have not noted any deficiencies in the number of quotes obtained.

Assessment

- Significant control recommendation
- Other control recommendations

Other matters to be reported

Management judgements and accounting estimates

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

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

Related parties

During the course of our audit, we have not noted any Related Party transactions which have not been disclosed in the financial statements. Conflicts of interest registers have been maintained throughout the period as expected.

Accounting estimates

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

Costs to complete/work in progress

Our work indicates that the historical estimates of costs to complete are materially accurate, and that estimates made by the Resource Managers are an appropriate basis to determine percentage completion.

Dilapidations provision

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

Significant difficulties encountered during the audit

No significant difficulties have been encountered during the audit. We would like to thank Kevin Thomas, Nicola Evans and the rest of the finance team for their hard work and cooperation during the audit.

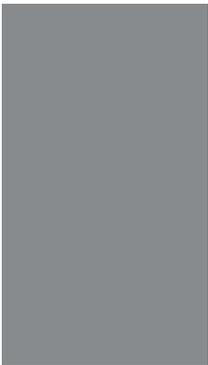
Representations requested

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

Update on matters communicated at the planning stage

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

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



Audit misstatements

A summary of the unadjusted misstatements identified during the course of our work is set out below, analysed between misstatements of fact and differences in judgement. We have not disclosed below those items that we consider to be “clearly trivial” in the context of our audit. For this purpose, we consider “clearly trivial” to be any matter less than £20,000. We advised management of all these misstatements on 21 May 2021 and requested management to correct them.

Adjustment	Type	Account	Value (£'000) Dr/(Cr)	Profit Impact (£'000) Dr/(Cr)	Description
1	Adjusted (reclassification)	Accrued Income Deferred Income	134 (134)	-	Reclassification of debit and credit balances on the Statement of Financial Position
2	Adjusted (judgemental error)	Revenue Deferred Income	(21) 21	21	Formula error noted in Costs to Complete assessments
3	Adjusted (reclassification)	Staff costs Other Operating Income	34 (34)	-	Reclassification of CJRS income
4	Adjusted (reclassification)	Prepayments Accruals	167 (167)	-	Recognition of equal value rates accrual and prepayment

Communication of audit matters to those charged with governance

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

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

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

Respective responsibilities

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

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

Financial statement disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the 2020-21 Financial Reporting Manual (FReM).

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

Adjusted disclosures

The accounting policy for going concern has been revised to reflect the statutory funding requirement of the Auditor General for Wales.

Reference to IFRS 16 adoption has been updated from 2021-22 to 2022-23, given the FReM implementation date of IFRS 16 is 1 April 2022.

Financial reporting updates

Important updates

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



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

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