

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

The Auditor General for Wales Annual Report and Accounts 2010/11

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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