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WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Auditor General's annual report and accounts - April 2008 to March 2009

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Report of the Auditor General

History and statutory background

The office of the Auditor General is a Crown appointment originally created in 1999 and re-established under section 145 of the Government of Wales Act 2006. Until 31 March 2005, the Auditor General's primary functions were to audit the accounts prepared by the National Assembly and its sponsored and related public bodies, and to undertake value for money examinations covering public sector bodies in Wales, excluding local government. Under the Public Audit (Wales) Act 2004, the Auditor General's functions were expanded with effect from 1 April 2005 to cover audit and inspection functions relating to health and local government previously exercised by the Audit Commission in Wales. On the same date, the staff of the National Audit Office based in Wales and the Audit Commission in Wales were transferred to the Auditor General's employment to form with him the Wales Audit Office. In addition to these staff, the Auditor General contracts with private sector professional services firms to deliver audit, inspection and other services.

The Public Audit (Wales) Act 2004 requires the Auditor General to co-operate with the Assembly Government, the Audit Commission and the Commission for Healthcare Audit and Inspection (which merged, on 1 April 2009, with the Commission for Social Care Inspection and the Mental Health Act Commission to form the Care Quality Commission) where it is appropriate to do so for the efficient and effective discharge of his functions in relation to NHS bodies.

The Government of Wales Act 2006 re-established the office of Auditor General with his existing functions and also created a Welsh Consolidated Fund giving rise to associated functions for the Auditor General from 1 April 2007.

Basis of Accounts

This Statement of 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.

Appointment of Auditors

The accounts of the Auditor General are audited by KTS Owens Thomas Limited, a firm appointed by the National Assembly.

Audit and Risk Management Committee

The Auditor General has established an Audit and Risk Management Committee, the members of which are all external to the Wales Audit Office. The committee is chaired by Peter Laing. The other members are Professor David Hands and Rosamund Blomfield-Smith. John Buckley stood down from membership of the committee in June 2008 and has not been replaced.

Further information about the work of the external auditors and of the Audit and Risk Management Committee is given in the Statement on Internal Control.

Pension scheme

Details of the pension arrangements for the Auditor General's staff are given in the Remuneration Report.

Jeremy Colman

Auditor General

Management Commentary

The functions of the Auditor General derive principally from the Government of Wales Acts 1998 and 2006 and from the Public Audit (Wales) Act 2004. Broadly speaking, the functions combine those carried out by the Auditor General since 1999 for the audit of the National Assembly and related bodies with those carried out by the Audit Commission in Wales for the audit of Welsh NHS bodies, and the audit, inspection, and regulation of local government bodies in Wales. The Auditor General is the external auditor of the accounts of the Assembly Government, its sponsored public bodies, Welsh NHS bodies and certain other bodies not subject to ministerial control such as the National Assembly for Wales Commission. He appoints, and regulates, the auditors of local government bodies.

In addition to his responsibilities for audit, the Auditor General has various powers and duties relating to inspection of local government bodies set out in the Local Government Act 1999 and can carry out studies on the use of resources by public bodies in Wales. He has the power to report on this work and to lay reports before the National Assembly.

Review of activities during 2008-09

The Auditor General intends to publish later this year a detailed review of the activities of the Wales Audit Office. In brief, however, the year 2008-09 was the third year of implementation of the first three-year strategy of the Wales Audit Office introduced in May 2006. The work of the Wales Audit Office, and firms contracted to the Auditor General, during the year was driven by the strategy which identified five themes for particular attention:

- a** promoting the adoption of good practice
- b** fraud and corporate governance
- c** partnership working
- d** NHS financial management
- e** whole systems working

In pursuit of that strategy, and of its mission to promote improvement, so that people in Wales benefit from accountable, well-managed public services that offer the best possible value for money, the Wales Audit Office carried out a mix of audit of accounts, local performance audit and inspection and published a number of national studies. In addition to these statutory functions the Wales Audit Office continued to promote shared learning and good practice specifically through The Good Practice Exchange. The position of the Auditor General as responsible for the audit of all the devolved public services in Wales greatly assisted the Wales Audit Office in its work on all matters relating to collaboration and partnership working within Wales.

A three-year strategy, to cover the period 2009-2012, called Sustained Impact in a Time of Change, was published in the Wales Audit Office conference on 20 May 2009. This strategy shows how the organisation intends to support the Auditor General in promoting improvements to public services through audit and inspection work in an environment of considerable change.

Also, the Auditor General has commissioned an independent peer review of its progress. The review is considering the efficiency and effectiveness of the Wales Audit Office and will make recommendations. The timing of the peer review will help inform the Wales Audit Office's plans to deliver its new three-year strategy.

For further details see our website at www.wao.gov.uk.

Senior staff

The senior staff responsible for directing projects together with the Auditor General make up the Partnership Board with collective responsibility for Wales Audit Office Strategy, with one of them, Anthony Snow, being the Chief Operating Officer, in charge of day-to-day operations. The management of the Wales Audit Office, as distinct from the direction of projects, is the responsibility of a Management Committee, chaired by the Auditor General.

The Partners were:

Anthony Snow
 Anthony Barrett
 Gillian Body
 Paul Dimblebee
 Simon Edge
 Ann-Marie Harkin
 John Herniman
 Jane Holownia
 Gill Lewis
 Alan Morris
 Ceri Stradling
 Kevin Thomas
 Mike Usher

Sector	Category of body	Number of accounts
Central Government	Assembly Government	5
	Assembly Government sponsored bodies	12
	Independent devolved public bodies	4
	Pension funds	2
	Other	4

Sector	Category of body	Number of accounts
Welsh NHS Bodies	Trusts	9
	Local health boards	22
Local Government Bodies	Unitary authorities	22
	Police authorities	4
	Fire authorities	3
	Probation boards and trusts	4
	National park authorities	3
	Town and community councils	740
	Pension funds	7
	Other	23
Total		864

Services Provided

The work of the Wales Audit Office covers 124 principal audited bodies and 740 other bodies. These bodies are analysed by category below:

Professional support to the National Assembly and other outward-facing work

As in previous years, the Auditor General has provided professional advice to support the scrutiny role of the Audit Committee of the National Assembly. The Auditor General's reports formed the basis of the Audit Committee's evidence sessions. He also provided support to the Committee in the preparation of the Committee's own reports, which include recommendations for improvement in public services. In addition, he advised the Committee on the Assembly Government's responses to their recommendations.

The Auditor General monitors the impact of his, and the Audit Committee's, work on an ongoing basis. He also provides substantive advice to the National Assembly's Audit Committee on an ad hoc basis.

The Auditor General has also provided professional advice to support other business areas of the National Assembly.

Widespread awareness of the work of the Auditor General leads him to receive enquiries and expressions of concern regarding financial management, value for money and the proper conduct of public business. Such correspondence comes from a variety of sources, including Assembly Members, the public and businesses. As in previous years, such correspondence has provided additional information for the Auditor General's mainstream work and indicated topics of concern from sources outside official channels.

Related to correspondence, the Auditor General has a specific statutory role as a 'prescribed person' under the Public Interest Disclosure Act 1998 to receive disclosures that relate to the proper conduct of public business, value for money, and fraud and corruption in relation to the provision of public services. The Public Interest Disclosure Act 1998 provides protection for employees making disclosures in the public interest regarding malpractice in the workplace – commonly known as 'whistleblowers'. As with other correspondence, such disclosures are investigated.

The Auditor General is bound by the Freedom of Information Act 2000 and the Data Protection Act 1998. The Auditor General dealt with 72 requests (26 in 2007-08) for information in the year.

Grants work

Grant-paying bodies and other agencies may ask the Auditor General (or his appointed auditors) to certify claims for grant and other financial returns. Certification aims to provide reasonable assurance that claims and returns are fairly stated and in accordance with the specified terms and conditions of the awarded grant. Currently, this service is provided for 50 grant schemes, covering grant expenditure of some £3 billion a year.

Risks and uncertainties

There are two main financial risks to which the Auditor General is subject, and they are:

- a** The potential loss of income due to changes in the health sector and the Local Government Measure.
- b** The treatment of VAT on inspection work. This is dealt with in more detail in Note 25.

The health sector will undergo a significant change in October 2009. Most of the existing health bodies, consisting of health trusts and local health boards, are to be merged to form seven new entities. Whilst in the short term there will be an increase in the amount of income to be derived from the changes, in the longer term there is likely to be a reduction in the amount of audit work required and therefore a corresponding reduction in fee income as the new bodies settle into a stable pattern of operation.

The coming into effect of the Local Government Measure, passed by the National Assembly on 28 April 2009, will have a considerable impact on the nature of the performance audit work undertaken by the Auditor General in the local government bodies to which it relates. At this stage, it is unclear what financial impact this will have on the Auditor General's income.

The Auditor General is assessing the impact of these changes and will, if appropriate, make allowance in his annual budget estimate paper to be presented to the Audit Committee of the National Assembly in October 2009. That paper outlines his request for resources and cash requirement to be funded by the National Assembly.

Financial Review

The Auditor General has a duty, taking one year with another, to ensure that his income is not less than his expenditure.

The surplus for the year of £10,000 (0.04 per cent of operating income) was generated from operating income of £25.2 million, which consists of fees, grants and approved resources. The income can be analysed as follows:

Central Government	£6.6 million
Local authorities, police, probation and housing	£14.2 million
Health	£4.4 million

Staff costs represent 66.6 per cent of the operating costs. To support the staff and ensure that they have the necessary technical and development skills £159,000 (2007-08, £251,000) was spent on staff training during the year. The time spent on such training, valued at standard charging rates, amounted to £1.3 million (2007-08, £1.3 million).

In line with the requirements of the Government of Wales Act 2006, a reconciliation of the amount of net approved resources to the net cash requirement for the year is recorded in Note 10. The note shows that the Auditor General utilised all the approved net resources and required the full cash allocation for the year. More details are in Note 10.

The accounts have been prepared on a going concern basis.

During 2008-09, Grant Thornton, KPMG and PricewaterhouseCoopers began work under the Auditor General's new framework contracts for audit and related services. Between them, these three firms delivered some 29 per cent of principal audit engagements across the local government, health and central government sectors, at a cost of £3.9 million in the year. The audits of community councils are performed by either UHY Hacker Young, BDO Stoy Hayward or Mazars.

Accommodation costs in the year were £0.9 million. Although the main office in Cardiff came into operation in March 2008, there were still outstanding leases on the original head offices. During the year, the lease of one of these head offices was terminated. The remaining lease for the original head office is due to expire in August 2009.

Impact on the environment

The Wales Audit Office pursues and promotes good environmental stewardship through the implementation of environmental best practice and the minimisation of our environmental impacts associated with our activities. We believe that sound environmental practice complements other measures to increase efficiency and supports the broader objective to promote sustainable development by considering the environment, social and economic impacts of our work and activities. Specific objectives and achievements include:

- a** Achieved Level 3, Green Dragon environmental accreditation at three of our major offices. Level 3 includes CO₂ monitoring, waste management, compliance with legislation, and environmental monitoring.
- b** Refurbished the headquarters in Cardiff to the highest environmental standards and achieved a very good BREEAM rating and 75 (green) environmental performance.

- c** Reduced our business car mileage by three per cent from the previous year, missing our target by two per cent. We have reduced 5,080 kg of CO₂ and average emissions per fleet vehicle from 163 to 154 g/km over 2008-09.
- d** Increased use of videoconferencing by 185 per cent and promoted teleconferencing over the 2008-09 period.
- e** Achieved baseline figures for energy monitoring performance to achieve an initial two per cent reduction over the upcoming period.
- f** Reduced the amount of office paper we used by one per cent (12,500 sheets) through measures such as online staff payslips, increased electronic publication of reports, duplex printing and scanning. Our target is a five per cent reduction.
- g** Ensured our suppliers have sound sustainability practices, and increased our use of e-purchasing as part of our procurement processes.
- h** Increased recycling where possible, which includes paper, plastics, cans, and toner cartridges and established baselines for recycled products.

People

At the year end, the Auditor General directly employed 270 staff (full-time equivalents) at a cost of £16.8 million.

The quality, diversity and engagement of staff is fundamental to the success of the Wales Audit Office. The major initiatives identified in the Wales Audit Office strategy required staff to be developed to ensure that they have the range and level of skills required.

The Wales Audit Office is committed to:

- a** developing staff to give them the skills and credibility to deliver the work programmes and the long-term aims of the organisation;
- b** ensuring that staff numbers and skill sets match the workload; and
- c** developing and creating the structure to enable staff to further their experience and careers.

The Auditor General wishes to promote diversity, equal opportunities and human rights both as an employer and through his audit and inspection functions. In employment terms, this means that the Auditor General seeks not only to fulfil his statutory obligations, but also to encourage good practice so that current and potential employees are treated positively and consistently irrespective of gender, marital status, ethnicity, age, sexual orientation, gender reassignment, disability or religion. The Auditor General seeks to involve and consult with employees about a range of issues including terms and conditions via the trade unions.

Future developments include a coaching programme to develop staff and managers and a new performance management scheme. Included in the performance management scheme is a full feedback scheme where managers are appraised by staff.

Sickness absence

The Wales Audit Office takes a proactive approach to minimising sickness absence. This includes having:

- a procedures in place to record and manage absenteeism; and
- b promoting a healthy lifestyle.

The average number of days lost per employee was 5.18 days (2007-08, 6.43 days). In order to improve this level further and minimise sickness absence, healthy living is encouraged. For example, several schemes such as salary sacrifice for purchase of bicycles and provision of fresh fruit as an alternative healthy snack are designed to help keep staff healthier.

In addition, the Wales Audit Office offers free medical checkups to staff, with a frequency depending on age and sex. This service is totally confidential but encourages staff to identify and hopefully act on any issues that may arise earlier than they may otherwise. In the longer term, it is anticipated that this will contribute to minimising sickness absence as staff will be healthier.

Average working days lost per employee	Total days lost	% lost to long-term sickness
5.18	1,539	37.2%

Analysis of key reasons for absence				
Total days lost	Proportion lost to			
	Stress	Musculoskeletal	Respiratory system	Other
1,539	14.7%	15.4%	20.3%	49.6% ¹

¹ This includes heart and eye conditions but also includes time not specifically attributed to any particular illness category.

Sickness absence days and average working days lost				
Total number of staff on payroll	Total number of staff years	Total days lost	Average working days lost per staff year	Average working days lost per employee
297 ¹	253	1,539	6.08	5.18

¹ This is the headcount on the payroll. The full time equivalent is 270.

Personal data loss

There is raised awareness of information governance and security within government bodies and the Wales Audit Office has policies and procedures in place to minimise the risks associated with any potential data loss. The operational controls and practices are subject to continual improvement, in recognition of which we have taken several initiatives to manage information risk as noted in the Statement on Internal Control on page 18, which also details actions on how information security has been enhanced.

Within the reported financial period, there have not been any personal data loss incidents reported to the Information Commissioner. Also there have been no centrally recorded protected personal data incidents reported to the Information Commissioner.

Future Developments

A new strategic plan covering the period 2009-2012 has been published in May 2009, as noted in the Management Commentary on page 5.

A new general ledger computer software system is in the process of being procured for implementation in April 2010. This system, combined with the systems that have been implemented over the last two years, will provide significantly improved management information and deliver savings compared to their predecessor systems.

A document management system will be implemented to improve payment performance of supplier invoices. This has the added benefit of ensuring that any disputed invoices can be resolved earlier, due to full and immediate access to invoice information. As the data will be stored electronically, this should make for a more secure paper process which should ultimately provide other benefits, such as environmental. For example, invoices will not need to be transported around the country for authorisation as this can be done online.

Also, a cash flow module will be implemented to enable the Auditor General to forecast cash requirements more accurately and to maximise any interest earned. This will largely be integrated with the new general ledger system.

The implementation of the Government of Wales Act 2006, which re-established the office of Auditor General with its existing functions, also created a Welsh Consolidated Fund giving rise to associated functions for the Auditor General from 1 April 2007. The Auditor General has the function of overseeing payments from the Welsh Consolidated Fund. In response to requests from the Welsh Ministers, the Wales Audit Office checks that proposed payments from the Welsh Consolidated Fund are in accordance with the National Assembly's budget motions or are otherwise in accordance with legislation. After the Auditor General's authorisation is given, the Paymaster General issues money from the Welsh Consolidated Fund to the appropriate public body. During the year, the Auditor General checked and approved payments totalling £11.9 billion.

Post-balance sheet events

There have been no post-balance sheet events requiring disclosure in these Financial Statements.

Payment Policy

The Auditor General aims to observe the principles of the Better Payment Practice Code and pay all undisputed invoices from his suppliers within 30 days. In the 12-month period, 95.8 per cent of undisputed invoices were paid within 30 days (2007-08, 95.6 per cent). In addition, the Auditor General has aimed to pay invoices in accordance with the guidance issued by the Assembly Government in November 2008 in which invoices to small and medium-sized businesses should be paid within 10 days. This specific guidance created difficulties in differentiating between suppliers so the Auditor General extended the guidance to cover all invoices, whether from large or small businesses.

Remuneration

Details are disclosed in the Remuneration Report below.

External Auditor

This Financial Statements are audited by KTS Owens Thomas Limited, the independent external auditor of the Auditor General, appointed by the National Assembly pursuant to Schedule 8 section 14 of the Government of Wales Act 2006. The audit fee is disclosed in Note 7.

Remuneration Report

During 2008-09, the Auditor General's salary costs were a direct charge on the Welsh Consolidated Fund, as required by Schedule 8 section 6 of the Government of Wales Act 2006. For the year ended 31 March 2009, the amount paid in respect of the Auditor General's remuneration was £170,200 (2007-08, £165,575) and employer's pension costs of £29,988 (2007-08, £28,764).

Senior Management

The Wales Audit Office comprises the Auditor General and his staff. A Management Committee in conjunction with the Chief Operating Officer deals with the day-to-day management of the Wales Audit Office.

The Management Committee, which is chaired by the Auditor General, comprises in addition five senior staff as follows:

	Date of appointment to Wales Audit Office or precursor organisation	Date of appointment to post	Contract
Anthony Snow (Chief Operating Officer)	1/10/1990	8/2/2006	Permanent
Ceri Stradling	1/11/1984	8/2/2006	Permanent
Gillian Body	12/9/1981	8/2/2006	Permanent
Simon Edge	1/11/2005	8/2/2006	Permanent
Jane Holownia	24/10/1994	8/2/2006	Permanent

Each manager is subject to a performance review which is conducted on a half-yearly basis with a pay review performed on a yearly basis. The notice period for each manager is 12 weeks.

Senior managers' remuneration details (this information is subject to audit)

The following table covers the senior management remuneration for the year to 31 March 2009.

	Year to 31 March 2009			Year to 31 March 2009	Year to 31 March 2008
	Salary	Benefits in kind	Total	Pension contribution	Total (excluding Pension contribution)
	Bands of £5,000	To nearest £100	Bands of £5,000	Bands of £2,500	Bands of £5,000
Anthony Snow ¹	130-135	2,200	135-140	27.5-30	125-130
Ceri Stradling	100-105	5,300	105-110	25-27.5	95-100
Gillian Body	110-115	700	110-115	27.5-30	100-105
Simon Edge	100-105	4,300	105-110	25-27.5	95-100
Jane Holownia ²	95-100	0	95-100	22.5-25	80-85

1 Anthony Snow has received employer contributions of £2,400 (rounded to nearest hundred), based on salary received above the earnings cap for pension calculation purposes. This was paid partly into salary and partly directly into a money purchase Additional Voluntary Contribution scheme.

2 Jane Holownia worked part-time for part of the year and her salary, which includes a transport allowance, is pro rata based on the hours worked.

Senior managers' pension entitlement details (this information is subject to audit)

	Real increase in pension at 60	Total accrued pension at 31 March 2009	Total accrued pension at 31 March 2008	Increase in transfer value	Cash equivalent transfer value at 31 March 2009	Restated Cash equivalent transfer value at 31 March 2008	Cash equivalent transfer value at 31 March 2008
	Bands of £2,500	Bands of £5,000	Bands of £5,000	£000	£000	£000	£000
Anthony Snow	0-2.5	55-60	55-60	78	863	785	907
Ceri Stradling	0-2.5	40-45	35-40	55	694	639	668
Gillian Body	0-2.5	35-40	35-40	53	652	599	647
Simon Edge	0-2.5	45-50	40-45	60	665	605	645
Jane Holownia	0-2.5	20-25	15-20	44	271	227	253

Note

The closing cash equivalent transfer value at 31 March 2008 has been restated by the Principal Civil Service Pension Scheme. This takes account of the change in the assumptions included in the calculations underpinning the demographics of the pension fund.

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

	Year to 31 March 2009	Year to 31 March 2008
	£	£
Peter Laing - Chairman	7,250	6,067
Professor David Hands	5,000	4,054
Rosamund Blomfield-Smith	5,000	4,054
John Buckley ¹	Nil	Nil

¹ John Buckley was the Secretary and Accounting Officer of the Office of the Comptroller and Auditor General of Ireland. He joined the Audit Risk and Management Committee on 12 March 2008. He received no remuneration from the Wales Audit Office for this work and all expenses were paid to the Office of the Comptroller and Auditor General of Ireland. He resigned the post on 4 June 2008 due to his appointment as Comptroller and Auditor General of Ireland.

The contract, except for John Buckley, is for three years from 1 November 2005, extendable by up to another three years by mutual consent, with the committee meeting at least four times a year. The contracts for the three members have been extended by three years.

None of the members receive performance-related pay, nor are they members of the pension scheme.

Pension Arrangements

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme and the Auditor General is therefore unable to identify the share of the underlying assets and liabilities relating to Wales Audit Office staff. A full actuarial valuation was last carried out at 31 March 2007. The valuations are usually carried out on a quadrennial basis but the next valuation will be in three years time, as at 31 March 2010. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

The normal employer contributions of £2,423,000 (2007-08, £2,321,000) were payable to PCSPS at one of four rates in the range of 17.1 per cent to 25.5 per cent of pensionable pay based on salary bands. The contributions will decrease for all of the four rates in the range of 16.7 per cent to 24.3 per cent and the salary bands will slightly increase in 2009-10. Employer contributions are normally reviewed every four years, but the next review will be in three years, following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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Jeremy Colman

Accounting Officer

19 June 2009

Statement of Accounting Officer's Responsibilities

In accordance with Treasury direction, the accounts are prepared on an accruals basis and must show a true and fair view of the Auditor General's state of affairs at the year end and of his income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Auditor General is required to comply with the Government Financial Reporting Manual and in particular to:

- a** observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- b** make judgements and estimates on a reasonable basis;
- c** state whether applicable accounting standards have been followed, and disclose and explain any material departures in the Financial Statements; and
- d** prepare the Financial Statements on the going concern basis, unless it is inappropriate to do so.

The Auditor General's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper records, are set out in the Accounting Officer Memorandum issued by HM Treasury and published in *Managing Public Money*.

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 my 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 *Managing Public Money*.

As Auditor General, I am independent of both the National Assembly and the Assembly Government. As Accounting Officer, I am accountable to the Audit Committee of the National Assembly (and to the Committee of Public Accounts of the House of Commons) for the overall organisation, management and staffing of the Wales Audit Office and for its procedures in relation to financial and other matters. The Audit 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 my 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 progressively developed during the 2008-09 financial year and subsequently, and accords with Treasury guidance.

Capacity to handle risk

I have instituted internal control arrangements to ensure that the Wales Audit Office has the capacity to identify, assess and manage risks effectively.

a The Management Committee

This committee, which I chair, has the responsibility for overseeing risk management within the organisation.

The culture of risk management within the organisation is determined at a strategic level. The Management Committee formally reviews, on a quarterly basis, all corporate risks and the adequacy of the measures in place to manage these risks. It also considers risk as an integral part of its decision-making processes and satisfies itself that the corporate and operational risks are being actively managed by designated risk owners, and that these arrangements are working effectively.

All issues in Internal Audit reports are discussed by the Management Committee and any resulting actions agreed prior to their implementation.

b The Audit and Risk Management Committee

The Audit and Risk Management Committee meets at least four times in a standard 12-month period. The committee was established in November 2005 and met four times in the year under review. Its responsibilities in summary are:

- to review the draft annual accounts and advise on any amendments or improvements before they are submitted to me for final approval and signature;
- to scrutinise and review:
 - the financial and accounting policies, practices and processes of the Wales Audit Office;
 - the internal control systems including reviewing and advising on the Internal Audit work plans, reviewing Internal Audit reports and the adequacy of management responses;
 - the annual report from the Head of Internal Audit summarising the work done in the period, including a review of the ongoing work implementing audit recommendations;
 - the Management Committee's assessment and management of risk including a formal review of the corporate risks that have been identified on a quarterly basis; and
 - the results of the external audit by KTS Owens Thomas Limited including their Management Letter and the response by management.
- the Audit and Risk Management Committee, can, in exceptional circumstances, report on my actions and behaviour to the Chair of the Audit Committee of the National Assembly.

As Accounting Officer, I aim to attend all meetings of the Audit and Risk Management Committee.

c Internal Audit

A member of the Management Committee has been appointed as the Head of Internal Audit. He reports to the Management Committee and submits reports for review to the Audit and Risk Management Committee to standards defined in the Government Internal Audit Standards. Those reports include the internal auditor's independent opinion on the adequacy and effectiveness of the organisation's system of internal control, together with the recommendations for improvement. I also encourage liaison between Internal and External Audit to ensure an efficient and cost-effective audit, based on a clear understanding of respective roles and requirements.

d External Audit

The external auditor, KTS Owens Thomas Limited, is invited to attend all Audit and Risk Management Committee meetings and has direct access to me and the Chairman of the committee.

The risk and control framework

I subscribe to the seven principles of conduct underpinning public life as set out by the Committee on Standards in Public Life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership).

The principal features and key high-level controls that have operated throughout the year are:

- a** An organisational structure that supports clear lines of communication and accountability.
- b** The implementation of a three-year strategic plan that was agreed with senior managers and subject to consultation with stakeholders. As stated in the Management Commentary on page 5, a new three-year strategic plan was issued in May 2009.
- c** Clear processes so that the risks identified fit into an overall structure.

The organisation's risk management processes have been designed to:

- a** Establish a policy framework approved by the Management Committee, within which strategic risks are identified, managed and kept under review.
- b** Embed risk management and compliance by making it part of the day-to-day management processes. Although the Management Committee collectively owns the risks, each corporate risk is also allocated to an appropriate Partner or Head of Service. This ensures that risk management is an essential part of all operational management arrangements. In addition, each risk is managed by a named manager, who actively reviews and reports on that risk.
- c** Adopt a consistent approach throughout the organisation. I have done this by appointing a member of the Management Committee, part of whose function is to ensure that all risk is managed using a consistent approach.

At the financial year end, I identified four generic risk areas which I am actively managing:

- a** loss of potential income through organisational reconfigurations across the Welsh public sector;
- b** risks associated with the implementation of matrix management;
- c** operational and financial risks; and
- d** legal risks.

Review of audit suppliers' work

I set the standards for the auditors I engage or appoint, including the staff of the Wales Audit Office, and monitor their performance. Central to my audit quality control procedures, is the requirement for auditors to comply with professional and ethical standards and the application of appropriately skilled staff who are subject to effective management direction and review at all stages of the audit process.

I ensure that standards are monitored and, through an annual risk-based review, I evaluate the quality of the work of audit suppliers (both from within the Wales Audit Office and from private firms). The review establishes whether auditors are complying with my Code of Audit and Inspection Practice, are meeting other specific requirements, and are promoting improvement so that the people of Wales benefit from accountable, well-managed public services that offer the best possible value for money. Review results are reported to audit suppliers. I take quality into account when contracting with private firms and when making audit appointments.

Review of effectiveness

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 auditors and my senior managers who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their Management Letter and other reports. The Audit and Risk Management Committee has considered the outcome of the review and my plan to ensure continuous improvement of the system and to address any weaknesses.

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 myself and to the Chairman of the Audit and Risk Management Committee, and attends every Audit and Risk Management Committee meeting.

A member of my Management Committee is responsible for risk management and maintains a corporate risk register. This register is regularly reviewed and updated as appropriate. Risk issues are assessed not only within the Management Committee meetings but also by the Audit and Risk Management Committee. Sector or function risk registers have also been established which underpin the corporate register and which are owned and updated by Partners and Heads of Services.

In recognition of general information security issues faced by all parts of the public sector over the last year, I have sought to further safeguard data held electronically within the Wales Audit Office. This has been done by:

- a** reminding all staff of their responsibilities towards basic asset protection in line with corporate policies, whether this is for physical assets such as laptops or for information assets such as data stored on computers or on portable electronic media;
- b** ensuring that all laptops have been upgraded such that all hard drives are encrypted to prevent unauthorised access in the event of theft;
- c** ensuring that all memory sticks have been upgraded such that only encrypted devices are used by my staff to prevent unauthorised access to information in the event of theft; and
- d** reminding staff not to request personal data unless absolutely necessary and to remove any personal information unless specifically required as audit evidence.

Furthermore, I have instigated a corporate information governance review by PricewaterhouseCoopers to look at the information governance arrangements within the Wales Audit Office. This is due to be completed and reported to me in 2009.

Significant internal control problems

I have not experienced any significant control problems, as defined by the Financial Reporting Manual, in the year.

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Jeremy Colman

Accounting Officer

19 June 2009

Auditor's Certificate and Report

The certificate and report of KTS Owens Thomas Limited to the National Assembly for Wales

We certify that we have audited the financial statements of The Auditor General for Wales for the year ended 31 March 2009 on pages 25 to 47 under paragraph 15 of Schedule 8 to the Government of Wales Act 2006. These financial statements have been prepared under the modified historical cost convention and the accounting policies set out on pages 28 and 29. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Auditor General for Wales and KTS Owens Thomas Limited

As described on page 17, the Auditor General for Wales is responsible for the preparation of the Annual Report, the Remuneration Report and the financial statements in accordance with the Government of Wales Act 2006 and Treasury directions made there under and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

Our responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland).

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited are properly prepared in accordance with the Government of Wales Act 2006 and Treasury directions made there under, and whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

We also report if, in our opinion, the Management Commentary is not consistent with the financial statements, if the Auditor General for Wales has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by Law regarding senior management team members' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Report of The Auditor General for Wales, the Management Commentary and the unaudited part of the Remuneration Report. We consider the implications for our certificate if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We review whether the statement on pages 18 to 22 reflects the Auditor General for Wales' compliance with Treasury's guidance, "Corporate Governance: Statement on Internal Control". We report if it does not meet the requirements for disclosure specified by Treasury or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to

consider, nor have we considered whether the Statement on Internal Control covers all risks and controls. We are also not required to form an opinion in the effectiveness of the Auditor General's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Auditor General for Wales in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Auditor General for Wales' circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming our opinion we have also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Auditor General for Wales at 31 March 2009 and of the surplus, total recognised gains and losses and cash flows for the financial year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government of Wales Act 2006 and directions made there under;
- in all material respects the income and expenditure have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them; and
- the information which comprises the Report of the Auditor General for Wales, the Management Commentary and the unaudited part of the Remuneration Report given within the Annual Report is consistent with the financial statements.

We have no observations to make on these financial statements.

KTS OWENS THOMAS LIMITED
Registered Auditors

19 June 2009

The Counting House
Celtic Gateway
Cardiff
CF11 0SN

Financial Statements and Notes

Income and expenditure account for the year ended 31 March 2009

	Note	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Operating income			
Audit fee income		16,875	15,671
Inspection income	3	3,017	3,208
National Assembly funding		4,900	3,922
Other operating income	4	333	227
		25,125	23,028
Operating costs			
Staff and associated costs	5	16,749	15,794
Bought-in services	6	4,095	3,669
Other operating costs	7	4,305	3,587
Notional cost	1(ix)	4	3
		25,153	23,053
Operating deficit including notional cost before taxation		(28)	(25)
<i>Financing income</i>			
Add back notional costs	1(ix)	4	3
Net interest receivable	8	43	34
Surplus for year before taxation		19	12
Corporation tax	9	(9)	0
Surplus for year after taxation		10	12

The notes that follow form part of these Financial Statements.

There are no recognised gains or losses for the year, other than those shown above.

The movement on reserves is set out in Note 18.

Balance Sheet at 31 March 2009

	Note	31 March 2009 £000	31 March 2008 £000
Fixed assets	11	1,134	1,589
Current assets			
Fee debtors and work in progress	12	2,356	3,013
Other debtors	13	532	509
Cash at bank and in hand	14	1,056	209
		3,944	3,731
<i>Creditors: amounts falling due within one year</i>			
Creditors and accrued charges	15	1,505	1,925
Deferred income	16	3,368	3,071
		4,873	4,996
Net current liabilities		(929)	(1,265)
Provisions for liabilities and charges	17	97	226
Total net assets		108	98
<i>Financed by</i>			
Revenue reserves	18	108	98
Total financing		108	98

The notes that follow form part of these Financial Statements.

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Jeremy Colman

Accounting Officer

19 June 2009

Cash Flow Statement for the year ended 31 March 2009

	Note	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Net cash inflow from operating activities	19	862	261
Returns on investments and servicing of finance			
Interest received		43	34
Net cash inflow from returns on investments and servicing of finance		43	34
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(58)	(975)
Net cash outflow from investing activities		(58)	(975)
Increase/(decrease) in cash	20	847	(680)

The notes that follow form part of these Financial Statements.

Notes to the Financial Statements

Note 1 - Accounting Conventions and Policies

Statement of Accounting Policies

The Financial Statements have been prepared in accordance with the Financial Reporting Manual issued by HM Treasury. The particular accounting 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 fixed 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.
- ii** The accounts meet the requirements of the Companies Act 2006, without limiting the information given, and applicable accounting standards so far as those requirements are appropriate.
- iii** Costs incurred on the audits of the National Assembly, the Assembly Government (as constituted by the Government of Wales Act 2006) and related bodies, local government and NHS bodies have been directly attributed where possible to the relevant activity; where this has not been possible, common expenditure has been attributed to each activity on an hours worked or other appropriate basis.
- iv** 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. Liability for payment of future benefits is a charge on the PCSPS. Pension arrangements are described in more detail in the Remuneration Report.
- v** Operating lease rentals are charged on a straight-line basis over the lease term. Lease incentives received are recognised in the income and expenditure account as an integral part of the total lease expense.
- vi** Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT.
- vii** Operating income, whether generated by direct government grant, approved National Assembly funding, fees generated from authorities or otherwise, 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.

viii Depreciation is provided on all fixed 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
Computer Software	5 years
Office Equipment	5 years

Under the Auditor General's capitalisation policy, individual computer equipment and software in excess of £5,000; other equipment in excess of £1,000 and office refurbishments are capitalised.

ix The notional cost of capital calculation is based on net assets other than balances held with the Office of the Paymaster General at 3.5 per cent, (2007-08, 3.5 per cent) and charged to operating costs. This cost is added back to the operating surplus/(deficit) and attributed to devolved central government, local government and NHS expenditure on the basis of reserves within each activity.

x The Auditor General provides for dilapidation costs under his property leases, discounted to current value.

xi It is, and has been throughout the period under review, the Auditor General's policy that no trading in financial instruments shall be undertaken, and that all deposits will be made in sterling. See Note 24 for further details. Deposits are made in the following accounts:

- a** Overnight interest bearing account
- b** Global Sterling Fund

Both accounts are held with the RBS Group. The Global Sterling Fund is a managed fund which offers instant access to deposit or withdraw funds. It 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 ratings are maintained, namely AAA rated or equivalent with Standard & Poor's, Fitch's and Moody's rating agencies.

xii Debtors and work in progress are valued at estimated realisable value. Work in progress relates to service contract receivables 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.

xiii The Auditor General actively pursues all debt, and provides only for that element where recovery is in doubt. Any debt written off that is subsequently collected is netted against the additional provision made in the period.

xiv Generally, the Auditor General's activities are non-trading and are therefore not subject to taxation. However, the HM Revenue and Customs guidance has been clarified by the Assembly Government in January 2009 such that the Auditor General is subject to corporation tax on profits arising from trading income, investment income and any capital gains arising.

Note 2 - Income and expenditure analysis

i Analysis by sector:

		Year to 31 March 2009 £000	Year to 31 March 2008 £000
Central government			
Fee income (see ii)	Fee income	1,178	1,042
	Grant income	393	363
	Other income	5,044	3,983
		6,615	5,388
Expenditure	Direct and indirect costs	6,601	5,385
Net results		14	3
Local government, police, probation, fire and rescue and housing			
Fee income (see ii)	Fee income	9,104	10,743
	Grant income	4,723	3,097
	Other income	374	233
		14,201	14,073
Expenditure	Direct and indirect costs	14,191	14,061
Net results		10	12
Health			
Income (see ii)	Fee income	4,219	3,560
	Other income	133	41
		4,352	3,601
Expenditure	Direct and indirect costs	4,366	3,604
Net results		(14)	(3)

ii Analysis of Income: Work undertaken by the Auditor General directly, and work outsourced:

Central government

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Undertaken by the Auditor General		
- fees	1,178	1,042
- grants	393	363
Other income	5,044	3,983
	6,615	5,388

Local government, police, probation, fire and rescue and housing

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Undertaken by Wales Audit Office staff appointed by the Auditor General		
- fees	7,760	8,672
- grants	2,058	2,090
Audits undertaken by private accountancy firms	4,009	3,078
Other income	374	233
	14,201	14,073

Health

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Undertaken by the Auditor General		
- fees	4,219	3,560
Other income	133	41
	4,352	3,601

These sections reflect the work for which the Auditor General is required to charge fees that will cover the full cost of providing the service.

Note 3 - Inspection income

Under the Local Government Act 1999, the Auditor General is responsible for the inspection of local authorities' compliance with the requirements of the act.

Grants are available to the Auditor General for inspection work in local authorities, and in the period, a number of grants were received from the Assembly Government.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Fee income	1,566	1,387
Grant income		
Assembly Government	1,451	1,821
	3,017	3,208

Note 4 - Other operating income

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Legal costs reimbursed	4	0
Publications and conferences	13	0
Secondments	310	227
Sundry income	6	0
	333	227

Note 5 - Staff and associated costs

i	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Staff costs		
Staff salaries	11,379	10,874
Audit and Risk Management Committee Member salaries	17	14
Social security costs	1,011	973
Pension costs	2,636	2,539
	15,043	14,400
Car scheme	677	564
Subscriptions and other benefits	76	69
	15,796	15,033
Audit and inspection contractors	745	761
	16,541	15,794
Redundancy, early retirement and severance costs	208	0
	16,749	15,794
Included in salaries are costs of staff seconded to other organisations	310	227

More detailed information in respect of the remuneration and pension entitlements of the senior management is shown in the Remuneration Report on pages 14 to 16.

ii	Year to 31 March 2009	Year to 31 March 2008
The average number of full-time equivalent staff employed during the year		
Staff employed		
Operational - audit and inspection	184	186
Central departments	67	58
	251	244
In post at year end	270	264
Permanent flexible, agency and affiliate contractors (average in year)	34	27
Permanent flexible, agency and affiliate contractors (in post at year end)	29	32

Note 6 - Bought-in services

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Payments to private accountancy firms	3,942	3,464
Research and other consultancy costs	153	205
	4,095	3,669

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

Note 7 - Other operating costs

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Accommodation		
- rent lease costs	605	429
- other costs	458	501
Supplies and services	1,906	1,700
Recruitment and transfers	21	62
Depreciation	391	79
Audit fee	10	9
Professional fees	134	105
Travel and subsistence	572	554
Training	159	251
Debts written off	2	0
Debts provided for	47	0
Release of provision for bad debts	0	(103)
	4,305	3,587

Note 8 - Net interest receivable

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Interest receivable	43	34
	43	34

Note 9 - Taxation

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Corporation tax at 21%	9	0
	9	0

The Auditor General is subject to corporation tax on his trading income, investment income and any capital gains arising. Corporation tax on these sources of income has been provided for in the accounts.

Note 10 - Reconciliation of net request for resources to net cash requirement

	Year to 31 March 2009		Net total out-turn compared with estimate: saving/ (excess)	Year to 31 March 2008		Net total out-turn compared with estimate: saving/ (excess)
	Estimate £000	Out-turn £000		Estimate £000	Out-turn £000	
Total income	25,600	25,168	432	24,700	23,062	1,638
Less exempted resources (note i)	(11,400)	(12,212)	812	(11,300)	(11,782)	482
	14,200	12,956	1,244	13,400	11,280	2,120
Less approved accrued resources (note ii)	(9,300)	(8,056)	(1,244)	(9,100)	(7,279)	(1,821)
Net request for resources	4,900	4,900	0	4,300	4,001	299
Add income recognised in advance of grant received	0	0	0	0	280	(280)
Use of provisions, movement in debtors and creditors and other adjustments (note iii)	200	391	(191)	100	(2)	102
Less capital items	(200)	(391)	191	(200)	(79)	(121)
Net Cash Requirement¹	4,900	4,900	0	4,200	4,200	0

¹ Total cash balances held by the organisation, note 21, may, due to normal operational cashflows, increase or decrease independently from those cash balances specifically attributed to the net cash requirement for non exempted activities as defined by the Government of Wales Act 2006.

Notes

Note i Under the Government of Wales Act 2006, the income generally relating to local government is exempted for approval purposes by the National Assembly.

	Year to 31 March 2009		Net total out-turn compared with estimate: saving/ (excess)	Year to 31 March 2008		Net total out-turn compared with estimate: saving/ (excess)
	Estimate £000	Out-turn £000		Estimate £000	Out-turn £000	
Audit fees	9,600	10,463	(863)	9,400	9,830	(430)
Assembly Government grant	1,500	1,451	49	1,500	1,821	(321)
Other	300	298	2	400	131	269
	11,400	12,212	(812)	11,300	11,782	(482)

Note ii Under the Government of Wales Act 2006, the income generally relating to central government and health is subject to approval by the National Assembly.

	Year to 31 March 2009		Net total out-turn compared with estimate: saving/ (excess)	Year to 31 March 2008		Net total out-turn compared with estimate: saving/ (excess)
	Estimate £000	Out-turn £000		Estimate £000	Out-turn £000	
Audit fees	6,900	5,495	1,405	6,800	5,004	1,796
Grant certification fees	2,300	2,452	(152)	2,200	2,087	113
Other	100	109	(9)	100	188	(88)
	9,300	8,056	1,244	9,100	7,279	1,821

Note iii Use of provisions, movement in debtors and creditors and other adjustments.

	Year to 31 March 2009		Net total out-turn compared with estimate: saving/ (excess)	Year to 31 March 2008		Net total out-turn compared with estimate: saving/ (excess)
	Estimate £000	Out-turn £000		Estimate £000	Out-turn £000	
Reduction in debtors, net of increase/ (release) of bad and doubtful debt provision	100	587	(487)	50	193	(143)
Increase/(release) of provision for bad and doubtful debts	0	47	(47)	0	(103)	103
Reduction in creditors and deferred income	100	(123)	223	50	(119)	169
(Decrease)/increase in provision for liabilities and charges	0	(129)	129	0	25	(25)
Miscellaneous	0	9	(9)	0	2	(2)
	200	391	(191)	100	(2)	102

Explanation of variance between estimate and out-turn

Total income recognised is less than expected due to the nature and timing of work undertaken. Whilst more chargeable work has been undertaken on the local government sector (which is generally exempted for approval purposes, under the Government of Wales Act 2006), nevertheless this was more than offset by the lower than anticipated level of income recognised within the central government and health sectors, which forms the approved resource requirement under the Government of Wales Act 2006.

The capital item includes notional cost of capital and depreciation charges, with the charge being more than expected due to the write-off of assets arising from the cessation of leases relating to formerly occupied office accommodation in Cardiff.

Note 11 - Fixed assets

	Furniture and Fittings £000	Computer Equipment and Software £000	Office Equipment £000	Total £000
Cost				
At 31 March 2008	1,249	646	38	1,933
Purchases	46	12	0	58
Disposals	(452)	(5)	(11)	(468)
At 31 March 2009	843	653	27	1,523
Depreciation				
At 31 March 2008	181	146	17	344
Provided in period	279	102	10	391
Disposals	(333)	(4)	(9)	(346)
At 31 March 2009	127	244	18	389
Net book value				
At 31 March 2009	716	409	9	1,134
At 31 March 2008	1,068	500	21	1,589

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 historic cost.

All assets are owned and none are subject to lease agreements.

Note 12 - Fee debtors and work in progress

	31 March 2009 £000	31 March 2008 £000
Fee debtors		
- Assembly Government and related public bodies	134	881
- Local Government	825	898
- NHS	221	552
Work in progress		
- Assembly Government and related public bodies	486	307
- Local Government	346	306
- NHS	344	69
	2,356	3,013

Bad and doubtful debt general provision (netted against appropriate class of debtor):

	31 March 2009 £000	31 March 2008 £000
Opening provision	89	192
Provision/(release) made in the year	47	(103)
Closing provision	136	89

Note 13 - Other debtors

	31 March 2009 £000	31 March 2008 £000
Other debtors and prepayments	513	485
Loans to employees	19	24
	532	509

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

	31 March 2009 £000	31 March 2008 £000
Included in other debtors:		
- housing relocation scheme: advances to staff	14	19

The debtor balances in Notes 12 and 13 can be analysed into the following categories:

	31 March 2009 £000	31 March 2008 £000
Central government bodies	651	1,188
Local government bodies	1,171	1,204
NHS bodies	565	621
Balances with bodies external to government	501	509
	2,888	3,522

Note 14 - Cash at bank and in hand

	31 March 2009 £000	31 March 2008 £000
Current account	759	209
Global Sterling Fund	297	0
	1,056	209

The Global Sterling Fund was established within the RBS Group during the year. 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 ratings are maintained, namely AAA rated or equivalent with Standard & Poor's, Fitch's and Moody's rating agencies.

Note 15 - Creditors and accrued charges

	31 March 2009 £000	31 March 2008 £000
Trade creditors	168	470
Taxation and social security	368	617
Accrual for holiday entitlement not yet taken	420	336
Accruals	549	502
	1,505	1,925

The accrual for holiday pay represents the liability for holiday entitlement carried over at the year end.

Note 16 - Deferred income

	31 March 2009 £000	31 March 2008 £000
Deferred Income	3,368	3,071
	3,368	3,071

The deferred income represents the monies received in advance for audit and inspection work.

The creditor balances in Notes 15 and 16 can be analysed into the following categories:

	31 March 2009 £000	31 March 2008 £000
Central government bodies	74	55
Local government bodies	2,197	1,989
NHS bodies	1,208	1,027
Public Corporations	17	0
Balances with bodies external to government	1,377	1,925
	4,873	4,996

Note 17 - Provisions for liabilities and charges

These provisions apply to future accommodation costs consisting of dilapidations which may be payable at the end of the leases.

	31 March 2009 £000	31 March 2008 £000
Opening balance	226	201
Provision in year	40	25
Released and utilised in year	(169)	0
Closing balance	97	226

These provisions are released and utilised, as appropriate, at the cessation of the leases.

Note 18 - Reserves

Revenue reserves

Reserves reflect funding provided to the Auditor General to fund working capital.

		31 March 2009 £000	31 March 2008 £000
Revenue reserves	Central government		
	Brought forward	5	2
	Surplus for year	14	3
	Central government reserves	19	5
	Local Government		
	Brought forward	45	33
	Surplus for year	10	12
	Local government reserves	55	45
	Health		
	Brought forward	48	51
	Deficit for year	(14)	(3)
	Health reserves	34	48
Total reserves		108	98

Note 19 - Reconciliation of operating deficit for year to net inflow from operating activities

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Operating deficit	(37)	(25)
Notional cost	4	3
Depreciation	391	79
Loss on disposal of fixed assets	122	2
Reduction in debtors and work in progress	634	296
Decrease in creditors and provisions	(252)	(94)
Net cash inflow from operating activities	862	261

Note 20 - Reconciliation of net cash inflow to movement in net funds

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Increase/(decrease) in cash	847	(680)
Change in net funds	847	(680)
Net funds at 1 April 2008	209	889
Net funds at 31 March 2009	1,056	209

Note 21 - Analysis of changes in net funds

	At 1 April 2008 £000	Cash Flows £000	At 31 March 2009 £000
Short-term investments and cash at bank and in hand	209	847	1,056

Note 22 - Financial commitments

There are revenue commitments at 31 March 2009 in respect of non-cancellable car leases which expire:

	31 March 2009 £000	31 March 2008 £000
within one year	423	39
within one to five years	60	566
	483	605

There were annual commitments as at 31 March 2009 to pay rentals under lease agreements which expire:

	2009 £000	2009 Number of properties	2008 £000	2008 Number of properties
within one year	62	2	0	0
from one to five years	60	1	358	5
over five years	5,314	2	6,593	2
	5,436	5	6,951	7

Office accommodation leases are subject to rent reviews.

Note 23 - Losses and special payments

There are no material losses, apart from the loss on disposal of fixed assets as per Note 11, or special payments in 2008-09 which require disclosure in accordance with the Financial Reporting Manual.

Note 24 - Derivatives and financial instruments

FRS 25 Financial Instruments: Disclosure and Presentation and FRS 26 Financial Instruments: Recognition and Measurement requires 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. Due to the nature of the Auditor General's activities and the way in which his operations are financed, his office is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 25 and FRS 26 mainly applies. Although the Auditor General can borrow funds he has not been required to do so, apart from utilising an approved overdraft facility, in this financial year. He can invest surplus funds but this is in an overnight interest bearing account and in a Global Sterling Fund and does not change the risks faced in undertaking his activities.

As permitted by FRS 29 (IFRS 7) Financial Instruments: Disclosures, Debtors and Creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The Auditor General's net revenue and capital resource requirements are financed by the National Assembly. His office is not therefore 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 he only makes very small forward purchases of foreign currency in connection with foreign travel and other associated costs such as hotels. Also, any fees generated from foreign work are minimal and is translated when received. Any exchange differences are recorded in the income and expenditure account 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 2009.

Note 25 - Contingent liabilities

The Auditor General has received an initial ruling from HM Revenue and Customs that his VAT status continues from previous legacy arrangements under the Audit Commission in Wales and the National Audit Office in Wales. This means that the inspection work is not a business activity for VAT purposes. The Auditor General is in discussion with HM Revenue and Customs to establish with them the correct treatment for this function and continues to charge and recover VAT on this activity.

Note 26 - Related party transactions

During the year, no members of the Audit and Risk Management Committee, members of the key staff or their related parties have undertaken any material transaction with the Auditor General.

The following disclosure relates to staff, or their related parties, that are in a position of influence resulting from being elected to, receiving remuneration from, or being appointed to any organisation, for example:

- a** where the Auditor General appoints the auditor or inspects the body;
- b** where there are specific statutory responsibilities to co-operate eg, Healthcare Commission;
- c** that is a central government department; and
- d** that is a provider or receiver of significant services to or from the Auditor General.

Audit Risk and Management Committee Member	Position held in Year ending 31 March 2009
Peter Laing – Chairman	Chair of United Welsh Housing Association Magistrate with the Cardiff bench Member of Financial Services & Markets Tribunal Member of the Pensions Regulator Tribunal Member of the HM Revenue and Customs Tribunal Member of the Claims Management Tribunal Trustee of the Principality Building Society Pension and Assurance Scheme
Professor David Hands	Honorary visiting professor in the Welsh Institute for Health and Social Care at the University of Glamorgan Senior fellow in the Institute of Medical and Social Care Research in the University of Wales, Bangor
Rosamund Blomfield-Smith	Chair of Moat Homes Ltd Director of Thames Water Utilities Ltd and associated group companies Director of British Empire Securities Plc Governor of the University of the West of England Governor of Hartpury Agricultural College Director of the Engineering Business Ltd until April 2008

Staff Member	Position held in Year ending 31 March 2009
Nicholas Selwyn	Wife is Chief Executive of Taff Housing Association
Dawn Brace	Husband is the Chief Executive of the General Teaching Council for Wales
Gill Lewis	Husband is Acting Chief Executive of the National Leadership and Innovations Agency in Healthcare
Alison Butler	Husband is the Director of Finance of the National Leadership and Innovations Agency in Healthcare
Chris Bolton	Wife is Acting Director of Service Improvement of National Leadership and Innovations Agency in Healthcare
Nigel Griffiths	Owner of a private company which has received rental income for a property used by Powys County Council
Iolo Llewelyn	Brother is a councillor at Neath Port Talbot County Borough Council and is a director of Trothwy Housing Association, part of Grŵp Gwalia