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

# **Auditor General's annual report and accounts** **April 2009 to March 2010**

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# Report of the Auditor General

## 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 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 the Auditor General's functions in relation to NHS bodies.

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

The Local Government (Wales) Measure 2009, which became effective from 10 June 2009, altered the regime of reviewing service performance and improvement within the local government sector.

## 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, Rosamund Blomfield-Smith, Dr Michael P Brooker, Haydn Warman and Denver Lynn.

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.

**Gillian Body**  
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.

The Auditor General appoints, and regulates, the auditors of local government bodies.

In addition, the Auditor General has various powers and duties relating to inspection of local government bodies set out in the Local Government Act 1999 and the Local Government (Wales) Measure 2009. The statutory duties of the external auditor comprise the audit of accounts and examinations of the value for money secured by Welsh public bodies in their use of resources. The Auditor General has the power to report on this work and to lay reports before the National Assembly.

### Review of activities during 2009-10

The second three-year strategy of the Wales Audit Office was introduced in May 2009. The work of the Wales Audit Office, and firms contracted to the Auditor General, during the year was driven by the strategy which identified six themes for particular attention:

- helping Welsh public bodies to improve their use of resources within the growing constraints of the economy and environment;
- promoting improved comparisons, clear performance data, and accessible reporting to decision makers and citizens;
- promoting better outcomes for citizens by working across boundaries to improve the way public services are planned, delivered and reviewed;
- supporting the reform of the NHS by providing high-quality and timely assurance, challenge and diagnosis;
- supporting the translation of Assembly Government strategy into action, both directly and through others; and
- helping to ensure that the implementation of the Local Government (Wales) Measure 2009 delivers improved services and relationships.

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 audits of accounts, local performance audit and inspection, and published a number of national studies. The introduction of the Local Government (Wales)

Measure 2009 generally amalgamated the local performance audit and inspection work for new accounts of designated local government bodies undertaken in the year. In addition to these statutory functions the Wales Audit Office continued to promote shared learning and good practice specifically through its web-based Good Practice Exchange ([www.wao.gov.uk/goodpracticeexchange.asp](http://www.wao.gov.uk/goodpracticeexchange.asp)). The position of the Auditor General, being 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, thereby ensuring a better service for Wales.

The activities undertaken during the year demonstrate that the Wales Audit Office staff have had a busy year and have performed very well in sometimes difficult circumstances. Without the support of the staff the Wales Audit Office would not have delivered its very demanding work programme. The office of the Auditor General would like to express its appreciation of the efforts of all the Wales Audit Office staff in delivering this work.

The former Auditor General commissioned an independent International Peer Review of the Wales Audit Office. The review was published on 8 October 2009 and made a number of recommendations. Although the three-year strategy was published before the review, initial findings were incorporated into the strategy.

The recommendations of the International Peer Review have been accepted and are in the process of being addressed. This resulted in the development of a Change Programme. The Programme is overseen by the Change Programme Board which is chaired by a Managing Partner with the responsibility to implement the International Peer Review recommendations. In addition this Board communicates its actions to the Executive Committee, staff and the Audit and Risk Management Committee to demonstrate the progress that is being made.

For further details see our website at [www.wao.gov.uk](http://www.wao.gov.uk)

## Senior staff

One of the recommendations of the International Peer Review was to implement a more directive management style. This recommendation has been actioned through the creation of an Executive Committee with delegated responsibility for running the organisation. The Executive Committee was established on 1 December 2009 and replaced the former arrangements, including the role of Chief Operating Officer, the Management Committee and the Partnership Board which comprised all the senior staff responsible for directing projects.

## The Partners during 2009-10 were:

Anthony Snow (left 30 September 2009)

Anthony Barrett

Gillian Body

Paul Dimplebee

Simon Edge

Ann-Marie Harkin

John Herniman

Jane Holownia

Gill Lewis (left 31 March 2010)

Alan Morris

Ceri Stradling

Kevin Thomas

Mike Usher

On 1 December 2009 a new Executive Committee, chaired by the Auditor General and comprising of three Managing Partners took charge of running the whole of the Wales Audit Office, including the direction of functional project streams. The Managing Partners are:

Gillian Body (Managing Partner, Performance Audit) until 11 February 2010. On 12 February 2010 she became the Auditor General.

Anthony Barrett (Managing Partner, Financial Audit)

Kevin Thomas (Managing Partner, Planning & Resources)

On 3 February 2010, Jeremy Colman tendered his resignation with immediate effect as the Auditor General. The National Assembly requested HM the Queen to appoint Gillian Body as Auditor General while a full recruitment exercise is undertaken to appoint a permanent replacement as Auditor General.

## Services provided

The work of the Wales Audit Office covers 98 principal audited bodies and 740 other bodies. These bodies are analysed by category below:

Sector	Category of body	Number of accounts
<b>Central government</b>	Assembly Government	5
	Assembly Government sponsored bodies	12
	Independent devolved public bodies	4
	Pension funds	2
	Other	4
<b>Welsh NHS bodies</b>	Trusts	3
	Local health boards	7
<b>Local government bodies</b>	Unitary authorities	22
	Police authorities	4
	Fire authorities	3
	Probation boards and trusts	1 <sup>1</sup>
	National park authorities	3
	Town and community councils	740
	Pension funds	8
	Other	20
<b>Total</b>		<b>838</b>

<sup>1</sup> There were four organisations in 2009-10 but they merged to form one entity in April 2010.

## 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 Public Accounts Committee (formerly the Audit Committee) of the National Assembly. The Auditor General's reports formed the basis of the Committee's evidence sessions. The Auditor General also provided support and advice to the Committee in its scrutiny of the Executive.

Widespread awareness of the work of the Auditor General leads to the receipt of 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, and the public. 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 appropriately.

The Auditor General is bound by the Freedom of Information Act 2000 and the Data Protection Act 1998. The Auditor General dealt with 57 requests (72 in 2008-09) for information in the year.

## Grants work

Grant-paying bodies and other agencies may ask the Auditor General (or 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 around 40 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:

- The potential loss of income due to changes in the health sector and the implementation of the Local Government (Wales) Measure 2009.
- The treatment of VAT on inspection work. This is also an issue on the Local Government (Wales) Measure 2009 work. This is dealt with in more detail in Note 26.

The health sector underwent a significant change in October 2009. Most of the existing health bodies, consisting of health trusts and local health boards, were merged to form seven new entities. Whilst in the short term there will be an increase in the amount of fee 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 (Wales) Measure 2009, which had Royal Assent on 10 June 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, although in the short term no reduction in the income level is expected.

Workforce planning is being used to model the resource implications of these and other changes. Where necessary the workforce will be reshaped to meet the operational and financial challenges arising.

The Auditor General is assessing the impact of these changes and will, if appropriate, make allowance in the annual budget estimate paper to be presented to the Public Accounts Committee of the National Assembly in October 2010. That paper outlines the Auditor General's 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 the income is not less than the expenditure.

The surplus for the year of £9,000 (0.04 per cent of operating income) was generated from operating income of £25.7 million, which consists of fees, grants and approved resources. The income can be analysed as follows:

Central government	£6.8 million
Local government, police, probation, fire and rescue, and housing	£13.0 million
Health	£5.9 million

Staff costs represent 69.1 per cent of the operating costs. To support the staff and ensure that they have the necessary technical and development skills £206,000 (2008-09; £159,000) was spent on staff training during the year. The time spent on such training, valued at standard charging rates, amounted to £1.2 million (2008-09; £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 2009-10, Grant Thornton UK LLP, KPMG Europe LLP and PricewaterhouseCoopers LLP continued work under the Auditor General's 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 UHY Hacker Young, BDO Stoy Hayward or Mazars.

Accommodation costs in the year were £0.8 million. Although the main office in Cardiff came into operation in March 2008, there was still one outstanding lease on the original head offices which was terminated during the year.

## Information on environmental, social and community issues

The Wales Audit Office pursues and promotes good environmental stewardship through the implementation of environmental best practice and the minimisation of our environmental impact 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 impact of our work and activities. Specific objectives and achievements include:

- To reduce business miles. There was an increased use of videoconferencing (VC) with 473 sessions taking place in 2009-10 (364 per cent increase since 2007-08). Building on this success, a project is mainly completed which implemented a large-scale upgrade to VC equipment which is Internet Platform compatible. This should reduce travel for both staff and for external stakeholders, and reduce telephone costs in the longer term. The Wales Audit Office has held four-way conference sessions across the UK with good success which not only reduces business miles but also saves travel time. This project includes installing additional VC units at the major offices and introducing a pilot for one-to-one web cam computer sessions.
- A review of our fleet management and transport arrangements. Initiatives include reducing carbon dioxide (CO<sub>2</sub>) emissions of our fleet vehicles each year and will also consider the types of vehicles used. There has been a 3.3 per cent reduction (35,268 business miles) compared to 2007-08, which is over half way to the target reduction of 5 per cent.
- Energy performance monitoring. In 2008-09, the Wales Audit Office developed baseline figures for its energy performance. The target thereafter was to reduce consumption by 2 per cent below the baseline. In 2009-10, energy consumption increased by 3 per cent, which is mainly due to the very cold winter. The Wales Audit Office is implementing additional fuel efficiency measures and aims to achieve the target reduction over the coming year.
- A project for virtualisation of ICT servers which is currently in progress to reduce energy consumption. The proposed reduction in direct power consumption for server hardware of 13.3 kW to 2.47 kW would reduce CO<sub>2</sub> emissions by 50,900 kg per annum.
- Electronic reporting. In July 2008, the Wales Audit Office introduced electronic reporting and set an objective to reduce the number of public reports printed. Compared to 2007-08 the number of printed reports has reduced by 2,800 or 40 per cent. The Wales Audit Office had also increased the number of reports produced per annum but with less paper copies.
- To reduce paper use. For 2008-09, the Wales Audit Office set a target to reduce paper use by 5 per cent. By achieving a 1 per cent reduction in 2008-09, the target was missed but due to implementing additional measures in 2009-10 the target was exceeded by 15 per cent.
- To reduce waste. The Wales Audit Office streamlined the number of printers and consumables by utilising multi-function devices. The Wales Audit Office also adopted a reuse first, that is, utilise existing items for another purpose before purchasing new products, and a just-in-time approach to purchasing stationery and have, therefore, increased the use of recycled products.
- Applying for re-accreditation to Level 3, Green Dragon, which is a stepped standard recognising effective environmental management, at four of our major offices. Level 3 includes CO<sub>2</sub> monitoring, waste management, compliance with legislation, and environmental monitoring.

Wales Audit Office staff regularly support various charity initiatives and take part in voluntary activities. In 2009-10, staff, as part of team building exercises, attended Hensol in Vale of Glamorgan to clear scrubland to encourage the marsh fritillary butterfly. Staff also attended a RSPB Reserve to help develop publicity, clear nettles, and participate in bird watching.

The Wales Audit Office ensures its suppliers have sound corporate social responsibility and sustainability practices. In addition, there has been an increased use of online purchasing and Government Procurement Cards as part of our procurement processes.

Social and community issues are covered within the work undertaken by the Auditor General and are outlined in the strategy as per page 5 of the Management Commentary.

## People

At the year end, the Auditor General directly employed 260 staff (full-time equivalents) at a cost of £17.7 million.

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

The Wales Audit Office is committed to:

- developing staff to give them the skills and credibility to deliver the work programmes and the long-term aims of the organisation;
- ensuring that staff numbers and skill sets match the workload; and
- 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 its audit and inspection functions. In employment terms, this means that the Auditor General seeks not only to fulfil relevant statutory obligations, but also to encourage good practice so that current and potential employees are treated positively and consistently 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 Leadership Development Programme to develop staff and managers, and a new performance management scheme. Already most managers have taken part in a 360 degree feedback process where managers are appraised by staff. This may be used more widely in the future but this is subject to further review.

## Sickness absence

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

- robust procedures in place to record and manage absenteeism; and
- arrangements to promote a healthy lifestyle.

The average number of days lost per employee was 8.1 days (2008-09; 5.2 days). However, this is skewed due to the amount of ongoing long term sickness amongst a small number of staff. For more meaningful comparability the average number of days lost to short-term sickness was 3.9 days (2008-09; 3.2 days). In order to reduce this level 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. 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 hoped that this will contribute to minimising sickness absence.

2009-10			2008-09		
Average working days lost per employee	Total days lost	% lost to long-term sickness	Average working days lost per employee	Total days lost	% lost to long-term sickness
8.1	2,238	50.9% <sup>1</sup>	5.2	1,539	37.2% <sup>1</sup>

<sup>1</sup> Long-term sickness is periods of 21 days or more.

Analysis of key reasons for absence									
2009-10					2008-09				
Proportion lost to					Proportion lost to				
Total days lost	Stress	Musculoskeletal	Respiratory system	Other	Total days lost	Stress	Musculoskeletal	Respiratory system	Other
2,238	9.3%	11.2%	16.1%	63.4% <sup>1</sup>	1,539	14.7%	15.4%	20.3%	49.6% <sup>1</sup>

<sup>1</sup> 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									
2009-10					2008-09				
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	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
276 <sup>1</sup>	242	2,238	9.2	8.1	297 <sup>1</sup>	253	1,539	6.1	5.2

<sup>1</sup> This is the headcount on the payroll as at 31 March with the full-time equivalent being 260 (2008-09; 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 21, 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 was published in May 2009, as noted in the Management Commentary on page 5.

A new general ledger computer software system has been procured for implementation in May 2010. This system, combined with the systems that have been implemented over the last two to three years, will provide significantly improved management information and deliver efficiency savings compared to their predecessors.

A document management system will be implemented to further 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 process which should ultimately provide other benefits, such as environmental improvements. For example, invoices will not need to be transported around Wales 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 main staff time recording system is being upgraded for implementation in May 2010. This will improve back office functionality by streamlining billing processes and resource planning and will, therefore, produce efficiency savings going forward.

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 £13.1 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 suppliers within 30 days. In the 12-month period, 96.3 per cent of undisputed invoices were paid within 30 days (2008-09; 95.8 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. In the 12-month period, 73.6 per cent of undisputed invoices were paid within 10 days.

## Remuneration

Details are disclosed in the Remuneration Report below.

## External auditor

These 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 2009-10, 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 2010, the amount paid in respect of the Auditor General's remuneration was £18,174 and employer's pension costs of £4,416. The former Auditor General, Jeremy Colman, received remuneration of £146,532 (2008-09; £170,200) and employer's pension costs of £25,654 (2008-09; £29,988).

### Senior management

The Wales Audit Office comprises the Auditor General and the Auditor General's staff. Until 30 November 2009, a Management Committee in conjunction with the Chief Operating Officer dealt with the day-to-day management of the Wales Audit Office.

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

	Date of appointment to Wales Audit Office or precursor organisation	Date of appointment to post	Date of termination	Contract
Anthony Snow (Chief Operating Officer)	01/10/1990	08/02/2006	30/09/2009	Permanent
Ceri Stradling	01/11/1984	08/02/2006		Permanent
Gillian Body	02/09/1981	08/02/2006		Permanent
Simon Edge	01/11/2005	08/02/2006		Permanent
Jane Holownia	24/10/1994	08/02/2006		Permanent

On 1 December 2009, following the International Peer Review, the Management Committee was replaced by an Executive Committee. This Committee is chaired by the Auditor General and comprises, in addition, three staff as follows:

	Date of appointment to Wales Audit Office or precursor organisation	Date of appointment to post	Date of termination	Contract
Gillian Body <sup>1</sup>	02/09/1981	01/12/2009	11/02/2010	Permanent
Anthony Barrett	24/01/2001	01/12/2009		Permanent
Kevin Thomas <sup>2</sup>	26/10/1992	01/12/2009		Permanent

1 Gillian Body became Auditor General on a temporary basis from 12 February 2010.

2 This is a temporary role to undertake the change programme.

Each member of the Executive Committee 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 member is 12 weeks. Early termination, other than through misconduct, would result in the individual receiving compensation.

The Auditor General will establish a Remuneration Committee later in the 2010-11 financial year. The Remuneration Committee will support the Auditor General in the discharge of responsibilities for issues relating to the remuneration of its staff, including senior staff. The Remuneration Committee will be a sub-committee of the Audit and Risk Management Committee.

The Remuneration Committee will advise, monitor, and support the proper discharge of the Auditor General's duties for remunerating the staff. The Remuneration Committee will provide an annual report and other reports as necessary to the Audit and Risk Management Committee.

The Remuneration Committee will formally review the quality and operation of the Wales Audit Office remuneration governance arrangements, with regard to matters of proper administration, risk and control and the efficient, effective and economic conduct of business. In addition, the Remuneration Committee will give advice on request or, as it feels is appropriate, provide external advice that the Auditor General would not otherwise have access to.

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

The following table covers the senior management remuneration for the period from 1 April 2009 to 30 November 2009 for those on the Management Committee.

	Period to 30 November 2009			Period to 30 November 2009	Year to 31 March 2009
	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 <sup>1,2</sup>	65-70	0	65-70	15.0-17.5	130-135
Ceri Stradling	65-70	3,400	70-75	15.0-17.5	100-105
Gillian Body <sup>1</sup>	70-75	200	75-80	17.5-20.0	110-115
Simon Edge	65-70	3,800	70-75	15.0-17.5	100-105
Jane Holownia <sup>3</sup>	65-70	0	65-70	12.5-15.0	95-100

1 Anthony Snow received employer contributions of £400 (rounded to nearest hundred), based on salary received above the earnings cap for pension calculation purposes. This was paid into salary.

2 Anthony Snow left the employment of the Auditor General on 30 September 2009. In recompense for the termination of his contract he received an amount of £107,580 and there is a continuing obligation to contribute to the pension scheme until normal retirement age.

3 Jane Holownia worked part-time for part of the 2008-09 year and her salary, which included a transport allowance, was pro rata based on the hours worked.

The following table covers the senior management remuneration for the period from 1 December 2009 to 31 March 2010 for those appointed to the Executive Committee.

	Period to 31 March 2010			Period to 31 March 2010	Year to 31 March 2009
	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
Gillian Body <sup>1</sup>	20-25	100	20-25	5.0-7.5	110-115
Anthony Barrett	35-40	1,700	35-40	7.5-10.0	
Kevin Thomas	30-35	2,700	35-40	7.5-10.0	

1 Gillian Body left on 11 February 2010 to become the Auditor General. The salary from 12 February 2010 is paid directly from the Welsh Consolidated Fund.

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

The details of the Management Committee to 30 November 2009, excluding Gillian Body who is reported as part of the Executive Committee, are as follows:

	Real increase in pension at 60	Total accrued pension and lump sum at 31 March 2010	Total accrued pension and lump sum at 31 March 2009	Increase in transfer value	Cash equivalent transfer value at 31 March 2010	Restated cash equivalent transfer value at 31 March 2009	Cash equivalent transfer value at 31 March 2009
	Bands of £2,500	Bands of £5,000	Bands of £5,000	£000	£000	£000	£000
Anthony Snow	2.5-5.0	60-65	55-60	131	994		863
Ceri Stradling	0-2.5	40-45	40-45	100	794		694
Simon Edge	0-2.5	45-50	45-50	69	734		665
Jane Holownia <sup>1</sup>	0-2.5	20-25	20-25	72	443	100	271

<sup>1</sup> The closing cash equivalent transfer value at 31 March 2009 was restated by the Principal Civil Service Pension Scheme (PCSPS). This took account of the change in the assumptions included in the calculations underpinning the demographics of the pension fund at that time.

The details of the Executive Committee from 1 December 2009 are as follows:

	Real increase in pension at 60	Total accrued pension and lump sum at 31 March 2010	Total accrued pension and lump sum at 31 March 2009	Increase in transfer value	Cash equivalent transfer value at 31 March 2010	Restated cash equivalent transfer value at 31 March 2009	Cash equivalent transfer value at 31 March 2009
	Bands of £2,500	Bands of £5,000	Bands of £5,000	£000	£000	£000	£000
Gillian Body	5.0-7.5	160-165	150-155	79	731		652
Anthony Barrett <sup>1</sup>	0-2.5	20-25		14	279		265
Kevin Thomas	0-2.5	25-30		18	319		301

<sup>1</sup> This includes a personal contribution of £4,366 to purchase added years.

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

	Year to 31 March 2010	Year to 31 March 2009
	£	£
Peter Laing <sup>1</sup> – Chairman	12,521	7,250
Professor David Hands	5,000	5,000
Rosamund Blomfield-Smith	5,000	5,000
Haydn Warman <sup>2</sup>	2,069	
Dr Michael P Brooker <sup>2</sup>	2,069	
Denver Lynn <sup>2,3</sup>	NIL	

- 1 This includes payment for additional work commissioned by the previous Auditor General of £5,271.
- 2 Haydn Warman, Dr Michael P Brooker and Denver Lynn were appointed on 2 November 2009.
- 3 Denver Lynn is the Deputy Chief Local Government Auditor working for the Northern Ireland Audit Office. He received no remuneration from the Wales Audit Office for this work.

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

None of the members receive performance-related pay, nor are they members of the pension scheme. Early termination, other than through misconduct, would result in the individual receiving compensation.

## 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. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

The normal employer contributions of £2,317,000 (2008-09; £2,423,000) were payable to PCSPS at one of four rates in the range of 16.7 per cent to 24.3 per cent of pensionable pay based on salary bands. The contributions will remain the same for all of the four rates in the range of 16.7 per cent to 24.3 per cent but the salary bands will slightly increase in 2010-11. Employer contributions are normally reviewed every four years, but the next review was brought forward to be undertaken within three years and undertaken with effect from 31 March 2010, following a scheme valuation by the Government Actuary. The results of this review will be available later in the year. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

.....  
**Gillian Body**  
 Accounting Officer  
 Date: 18 June 2010

## 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 the income and expenditure 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:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the Financial Statements; and
- 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 responsibility for the propriety and regularity of the public finances for which the Office 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 Public Accounts 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 Public Accounts Committee examines my annual estimate of income and expenditure.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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 2009-10 financial year 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 Executive Committee

This Committee, which I chair, has the responsibility for the overall management of the Wales Audit Office. This includes overseeing risk management within the organisation.

The culture of risk management within the organisation is determined at a strategic level. The Executive 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 Executive 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 Executive 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 Chair of the Audit and Risk Management Committee, together with the Wales Audit Office's Compliance Partner, can, in exceptional circumstances, report on my actions and behaviour to the Chair of the Public Accounts Committee of the National Assembly.

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

### **c Internal Audit**

The Wales Audit Office's Compliance Partner has been appointed as the Head of Internal Audit. He reports to me, and to the Executive 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. Together with the Chair of the Audit and Risk Management Committee the Compliance Partner, can, in exceptional circumstances, report on my actions and behaviour to the Chair of the Public Accounts Committee of the National Assembly.

### **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 Executive 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 Executive 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 Partner, reporting to me and the Executive Committee, 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 organisational change within the Wales Audit Office;
- 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 procedure, 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, extant for the year under review (now the Code of Audit Practice from April 2010), 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.

As demonstrated by the recent events surrounding the former Auditor General, the internal controls surrounding the role of Internal Audit and that of the Chairman of the Audit and Risk Management Committee, proved to be highly effective and sufficiently robust in enabling the matter to be escalated swiftly to the Public Accounts Committee for resolution through the appropriate channels.

One of the Partners (who attends meetings of my Executive Committee as an advisor), is responsible for risk management and maintains the corporate risk register. This register is regularly reviewed and updated as appropriate. Risk issues are assessed not only within the Executive 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 Managing Partners and Heads of Services.

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

- 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;
- ensuring that all laptops have been upgraded such that all hard drives are encrypted to prevent unauthorised access in the event of theft;
- ensuring that all memory sticks have been upgraded such that only encrypted devices are authorised for use by my staff to prevent unauthorised access to information in the event of theft; and
- reminding staff not to request personal data unless absolutely necessary and to remove any personal information at the end of the audit unless specifically required for retention as audit evidence.

Furthermore, the former Auditor General instigated a corporate information governance review by PricewaterhouseCoopers to look at the information governance arrangements within the Wales Audit Office. This reported that whilst all the necessary controls and procedures were in place nevertheless there were cultural issues with staff which needed to be addressed. In view of high-profile cases being identified both externally and internally to the organisation a further tightening and enforcement of policies has been implemented. This is having the desired effect of changing cultural attitudes to information governance and security within the organisation.

### Significant internal control problems

I have not experienced any significant control problems in the year.

.....  
**Gillian Body**  
Accounting Officer  
Date: 18 June 2010

# 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 2010 on pages 28 to 55 under paragraph 15 of Schedule 8 to the Government of Wales Act 2006. These Financial Statements have been prepared under the accounting policies set out therein. 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 20, 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 HM Treasury regarding 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 21 to 25 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, in accordance with the Government of Wales Act 2006 and Treasury directions made there under, of the state of affairs of the Auditor General for Wales at 31 March 2010 and of the surplus, changes in reserves 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 Treasury 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.

## Separate opinion in relation to IFRSs

As explained in Note 1 to the Financial Statements, the Auditor General for Wales has complied with the 2009-10 version of the HM Treasury FReM.

In our opinion the Financial Statements give a true and fair view, in accordance with the 2009-10 version of the HM Treasury FReM, of the state of affairs of the Auditor General for Wales at 31 March 2010 and of the surplus, changes in reserves and cash flows for the financial year then ended.

We have no observations to make on these Financial Statements.

.....  
**KTS OWENS THOMAS LIMITED**  
Registered Auditors

Date: 18 June 2010

The Counting House  
Celtic Gateway  
Cardiff  
CF11 0SN

## Financial Statements and notes

### Statement of comprehensive income for the year ended 31 March 2010

	Note	Year to 31 March 2010 £000	Year to 31 March 2009 £000
<b>Operating income</b>			
Audit fee income		16,606	16,875
Inspection income	3	3,599	3,017
National Assembly funding		5,047	4,900
Other operating income	4	371	333
		<u>25,623</u>	<u>25,125</u>
<b>Operating costs</b>			
Staff and associated costs	5	17,716	16,749
Bought-in services	6	4,096	4,095
Other operating costs	7	3,806	4,305
Notional cost	1(xi)	4	4
		<u>25,622</u>	<u>25,153</u>
Operating surplus/(deficit) including notional cost before taxation		1	(28)
<b>Financing income</b>			
Add back notional costs	1(xi)	4	4
Net interest receivable	8	5	43
Surplus for year before taxation		10	19
Corporation tax	9	(1)	(9)
Surplus for year after taxation		<u>9</u>	<u>10</u>

The notes that follow on pages 32 to 55 form part of these Financial Statements.

The movement on reserves is set out in Note 19.

## Statement of financial position at 31 March 2010

	Note	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
<b>Non-current assets</b>				
Property, plant and equipment	11	1,268	1,134	1,589
Intangible assets	12	120	0	0
Total non-current assets		<u>1,388</u>	<u>1,134</u>	<u>1,589</u>
<b>Current assets</b>				
Fee debtors and work in progress	13	2,027	2,356	3,013
Other debtors	14	487	532	509
Cash at bank and in hand	15	3,296	1,056	209
Total current assets		<u>5,810</u>	<u>3,944</u>	<u>3,731</u>
Total assets		<u>7,198</u>	<u>5,078</u>	<u>5,320</u>
<b>Current liabilities</b>				
Creditors and accrued charges	16	1,584	1,505	1,925
Deferred income	17	4,702	3,368	3,071
Provisions for liabilities and charges	18	715	0	0
Total current liabilities		<u>7,001</u>	<u>4,873</u>	<u>4,996</u>
Total assets less current liabilities		<u>197</u>	<u>205</u>	<u>324</u>
<b>Non-current liabilities</b>				
Provisions for liabilities and charges	18	80	97	226
Total non-current liabilities		<u>80</u>	<u>97</u>	<u>226</u>
Assets less liabilities		<u>117</u>	<u>108</u>	<u>98</u>
<b>Reserves</b>				
Revenue reserves	19	117	108	98
Total reserves		<u>117</u>	<u>108</u>	<u>98</u>

The notes that follow on pages 32 to 55 form part of these Financial Statements.

.....  
**Gillian Body**  
Accounting Officer  
Date: 18 June 2010

## Cash flow statement for the period ended 31 March 2010

	Note	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Net cash inflow from operating activities	20	2,692	862
<b>Returns on investments and servicing of finance</b>			
Interest received		5	43
Net cash inflow from returns on investments and servicing of finance		5	43
<b>Capital expenditure and financial investment</b>			
Payments to acquire property, plant and equipment		(337)	(58)
Payments to acquire intangible assets		(120)	0
Net cash outflow from investing activities		(457)	(58)
Increase in cash	22	2,240	847
Cash and cash equivalents at the beginning of the period		1,056	209
Cash and cash equivalents at the end of the period		3,296	1,056

The notes that follow on pages 32 to 55 form part of these Financial Statements.

## Statement of changes in equity for the year ended 31 March 2010

	<b>£000</b>
Balance at 31 March 2008	<u>98</u>
Effect of changes under International Financial Reporting Standards	<u>0</u>
Balance at 31 March 2008	<u>98</u>
<b>Changes in taxpayers' equity in 2008-09</b>	
Surplus for year after taxation	<u>10</u>
Balance at 31 March 2009	<u>108</u>
<b>Changes in taxpayers' equity in 2009-10</b>	
Surplus for year after taxation	<u>9</u>
Closing balance at 31 March 2010	<u>117</u>

The notes that follow on pages 32 to 55 form part of these Financial Statements.

### First-time adoption of the International Financial Reporting Standards

The Auditor General has fully adopted the International Financial Reporting Standards (IFRSs) in this financial year and as there is no impact onto the accounts, no re-statement of balances or Financial Statements or statement of reconciliation of movements are required.

# 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 2009-10 Government Financial Reporting Standards (FReM), issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Auditor General for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Auditor General are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

- (i) The accounts are prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets where material to their value to the business by reference to their current costs, in a form directed by HM Treasury, under paragraph 13(1) of Schedule 8 of the Government of Wales Act 2006.
- (ii) Certain standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after the 1 April 2010 or later periods, but they have not been adopted early. None of these standards are expected to have a material impact on the Financial Statements.
- (iii) 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.
- (iv) 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.
- (v) The PCSPS is an unfunded multi-employer scheme 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.
- (vi) Operating lease rentals are charged on a straight-line basis over the lease term. Lease incentives received are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

- (vii)** Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT.
- (viii)** 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.
- (ix)** Depreciation is provided on all property, plant and equipment assets calculated to write off the cost, less estimated residual value, of each asset in equal annual instalments over its expected useful life as follows:

Furniture and fittings	10 years
Computer equipment	3 years
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. Depreciation is calculated from the date the asset commences its useful life.

- (x)** Intangible assets, which are software licences, are stated at amortised historic cost. The assets are amortised on a straight-line basis over the shorter of the term of licence or useful economic life. Amortisation is calculated from the date the intangible asset commences its useful life.
- (xi)** 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 (2008-09; 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.
- (xii)** The Auditor General provides for dilapidation costs under its property leases, discounted to current value.
- (xiii)** 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 25 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.
- (xiv)** 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.

- (xv) 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.
- (xvi) 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.
- (xvii) The preparation of the Financial Statements requires estimates and assumptions to be made that affect the application of policies and reported amounts. Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

Information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes to the Financial Statements:

Note 18: Provisions for redundancies and severances are estimated in line with PCSPS principles in the first instance in conjunction with the use of other tools as appropriate.

Note 13: Work in progress. As noted in (xiv) work in progress is valued at estimated realisable value. This method uses a percentage of completion in accounting for the level of work in progress recognised on all agreed fee assignments, that is, an estimation of the services performed to date as a proportion of the total services to be performed.

Note 13: Provision for bad and doubtful debt is calculated on a basis of:

Debts between 6-12 months	50%
Debts older than 12 months	100%

This is subject to further review on a specific debt basis.

Note 11 and 12: Non-current assets are reviewed annually to assess if they have suffered any impairment.

## Note 2: Income and expenditure analysis

### i) Analysis by sector:

		Year to 31 March 2010	Year to 31 March 2009
		£000	£000
<b>Central government</b>			
Fee income (see ii)	Fee income	1,139	1,178
	Grant income	376	393
	Other income	5,259	5,044
		<b>6,774</b>	<b>6,615</b>
Expenditure	Direct and indirect costs	6,785	6,601
Net results		<b>(11)</b>	<b>14</b>
<b>Local government, police, probation, fire and rescue and housing</b>			
Fee income (see ii)	Fee income	10,831	9,104
	Grant income	1,730	4,723
	Other income	412	374
		<b>12,973</b>	<b>14,201</b>
Expenditure	Direct and indirect costs	12,964	14,191
Net results		<b>9</b>	<b>10</b>
<b>Health</b>			
Income (see ii)	Fee income	5,747	4,219
	Other income	134	133
		<b>5,881</b>	<b>4,352</b>
Expenditure	Direct and indirect costs	5,870	4,366
Net results		<b>11</b>	<b>(14)</b>

ii) Analysis of income: work undertaken by the Auditor General directly, and work outsourced:

**Central government**

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Undertaken by the Auditor General		
Fees	1,139	1,178
Grants	376	393
Other income	5,259	5,044
	<u>6,774</u>	<u>6,615</u>

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

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Undertaken by Wales Audit Office staff appointed by the Auditor General		
Fees	7,622	7,760
Grants	1,464	2,058
Audits undertaken by private accountancy firms	3,475	4,009
Other income	412	374
	<u>12,973</u>	<u>14,201</u>

**Health**

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Undertaken by the Auditor General		
Fees	5,747	4,219
Other income	134	133
	<u>5,881</u>	<u>4,352</u>

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.

The net assets for each sector are recorded in Note 19.

### Note 3: Inspection and Local Government (Wales) Measure 2009 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. However, the Local Government (Wales) Measure 2009, introduced on 10 June 2009, has effectively replaced this work.

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. Such grants will now transfer to work undertaken for the Local Government (Wales) Measure 2009.

		<b>Year to 31 March 2010</b>	<b>Year to 31 March 2009</b>
		<b>£000</b>	<b>£000</b>
Fee income		1,931	1,566
Grant income	Assembly Government	1,668	1,451
		<u>3,599</u>	<u>3,017</u>

### Note 4: Other operating income

		<b>Year to 31 March 2010</b>	<b>Year to 31 March 2009</b>
		<b>£000</b>	<b>£000</b>
Legal costs reimbursed		0	4
Publications and conferences		17	13
Secondments		344	310
Sundry income		10	6
		<u>371</u>	<u>333</u>

## Note 5: Staff and associated costs

### (i) Staff costs

	Year to 31 March 2010	Year to 31 March 2009
	£000	£000
Staff salaries	11,370	11,379
Audit and Risk Management Committee Member salaries	27	17
Social security costs	1,033	1,011
Pension costs	2,864	2,636
	<b>15,294</b>	<b>15,043</b>
Car scheme	777	677
Subscriptions and other benefits	45	76
	<b>16,116</b>	<b>15,796</b>
Audit and inspection contractors	725	745
	<b>16,841</b>	<b>16,541</b>
Redundancy, early retirement and severance costs	875	208
	<b>17,716</b>	<b>16,749</b>
Included in salaries are costs of staff seconded to other organisations	344	310
Staff costs which have been capitalised	49	0

More detailed information in respect of the remuneration and pension entitlements of the senior management is shown in the Remuneration Report on pages 15 to 19.

(ii) The average number of full-time equivalent staff employed during the year

	Year to 31 March 2010	Year to 31 March 2009
<b>Staff employed</b>		
Operational – audit and inspection	166	184
Central departments	76	67
	<u>242</u>	<u>251</u>
In post at year end	<u>260</u>	<u>270</u>
Permanent flexible, agency and affiliate contractors (average in year)	<u>21</u>	<u>34</u>
Permanent flexible, agency and affiliate contractors (in post at year end)	<u>28</u>	<u>29</u>
Number of full-time equivalent staff capitalised	<u>1.3</u>	<u>0</u>

## Note 6: Bought-in services

	Year to 31 March 2010	Year to 31 March 2009
	£000	£000
Payments to private accountancy firms	3,880	3,942
Research and other consultancy costs	216	153
	<u>4,096</u>	<u>4,095</u>

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

## Note 7: Other operating costs

		Year to 31 March 2010	Year to 31 March 2009
		£000	£000
Accommodation	rent lease costs	455	605
	other costs	393	458
Supplies and services		1,691	1,906
Recruitment and transfers		15	21
Depreciation		203	391
Audit fee		13	10
Professional fees		158	134
Travel and subsistence		528	572
Training		206	159
Debts written off		0	2
Debts provided for		144	47
Release of provision for bad debts		0	0
		<u>3,806</u>	<u>4,305</u>

## Note 8: Net interest receivable

	Year to 31 March 2010	Year to 31 March 2009
	£000	£000
Interest receivable	5	43
	<u>5</u>	<u>43</u>

## Note 9: Taxation

	Year to 31 March 2010	Year to 31 March 2009
	£000	£000
Corporation tax at 21%	1	9
	<u>1</u>	<u>9</u>

The Auditor General is subject to corporation tax on 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 2010			Year to 31 March 2009		
	Estimate	Out-turn	Net total out- turn compared with estimate: saving/(excess)	Estimate	Out-turn	Net total out- turn compared with estimate: saving/(excess)
	£000	£000	£000	£000	£000	£000
Total income	26,697	25,628	1,069	25,600	25,168	432
Less exempted resources (Note i)	(11,900)	(11,243)	(657)	(11,400)	(12,212)	812
	<b>14,797</b>	<b>14,385</b>	<b>412</b>	<b>14,200</b>	<b>12,956</b>	<b>1,244</b>
Less approved accrued resources (Note ii)	(9,750)	(9,338)	(412)	(9,300)	(8,056)	(1,244)
Net request for resources	<b>5,047</b>	<b>5,047</b>	<b>0</b>	<b>4,900</b>	<b>4,900</b>	<b>0</b>
Use of provisions, movement in debtors and creditors and other adjustments (Note iii)	173	176	(3)	200	391	(191)
Less capital items	(200)	(203)	3	(200)	(391)	191
Net cash requirement <sup>1</sup>	<b>5,020</b>	<b>5,020</b>	<b>0</b>	<b>4,900</b>	<b>4,900</b>	<b>0</b>

<sup>1</sup> Total cash balances held by the organisation, Note 21, may, due to normal operational cash flows, 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 2010			Year to 31 March 2009		
	Estimate	Out-turn	Net total out- turn compared with estimate: saving/(excess)	Estimate	Out-turn	Net total out- turn compared with estimate: saving/(excess)
	£000	£000	£000	£000	£000	£000
Audit fees	10,050	9,371	679	9,600	10,463	(863)
Assembly Government grant	1,400	1,668	(268)	1,500	1,451	49
Other	450	204	246	300	298	2
	<b>11,900</b>	<b>11,243</b>	<b>657</b>	<b>11,400</b>	<b>12,212</b>	<b>(812)</b>

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 2010			Year to 31 March 2009		
	Estimate	Out-turn	Net total out- turn compared with estimate: saving/(excess)	Estimate	Out-turn	Net total out- turn compared with estimate: saving/(excess)
	£000	£000	£000	£000	£000	£000
Audit fees	7,200	7,062	138	6,900	5,495	1,405
Grant certification fees	2,400	2,106	294	2,300	2,452	(152)
Other	150	170	(20)	100	109	(9)
	<b>9,750</b>	<b>9,338</b>	<b>412</b>	<b>9,300</b>	<b>8,056</b>	<b>1,244</b>

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

	Year to 31 March 2010			Year to 31 March 2009		
	Estimate	Out-turn	Net total out- turn compared with estimate: saving/(excess)	Estimate	Out-turn	Net total out- turn compared with estimate: saving/(excess)
	£000	£000	£000	£000	£000	£000
Reduction in debtors, net of increase / (release) of bad and doubtful debt provision	73	230	(157)	100	587	(487)
Increase/(release) of provision for bad and doubtful debts	0	144	(144)	0	47	(47)
Increase/(reduction) in creditors and deferred income	100	1,413	(1,313)	100	(123)	223
(Decrease)/increase in provision for liabilities and charges <sup>1</sup>	0	(17)	17	0	(129)	129
Less non- approved items <sup>2</sup>	0	(1,525)	1,525	0	(847)	847
Miscellaneous <sup>3</sup>	0	(69)	69	0	856	(856)
	<b>173</b>	<b>176</b>	<b>(3)</b>	<b>200</b>	<b>391</b>	<b>(191)</b>

1 This does not include notional provision adjustments.

2 The classification of non-approved items recognises the amount of movement on the balance sheet in relation to exempt cash received and various provisions made.

3 Miscellaneous movements consist of a number of individual balances which have been aggregated to reflect the classification of non-approved items.

## 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 health sector (which forms part of the approved accrued resources, under the Government of Wales Act 2006), nevertheless this was more than offset by the lower than anticipated level of income recognised within the local government sector, which generally forms the exempt resource requirement under the Government of Wales Act 2006.

There has been an increase in the amount of deferred income as the focus of work delivery has been on the health sector due to the reorganisation of the sector undertaken in the year. This had an effect of deferring some audit work undertaken for other clients.

## Note 11: Property, plant and equipment

	Furniture and fittings	Computer equipment and software	Office equipment	Total
	£000	£000	£000	£000
<b>Cost</b>				
At 31 March 2009	843	653	27	1,523
Purchases	76	252	9	337
Disposals	(1)	(21)	0	(22)
At 31 March 2010	<u>918</u>	<u>884</u>	<u>36</u>	<u>1,838</u>
<b>Depreciation</b>				
At 31 March 2009	127	244	18	389
Provided in period	88	108	6	202
Disposals	(1)	(20)	0	(21)
At 31 March 2010	<u>214</u>	<u>332</u>	<u>24</u>	<u>570</u>
<b>Net book value</b>				
At 31 March 2010	<u>704</u>	<u>552</u>	<u>12</u>	<u>1,268</u>
At 31 March 2009	<u>716</u>	<u>409</u>	<u>9</u>	<u>1,134</u>

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: Intangible assets

Intangible assets are software licences.

	<b>Total</b>
	<b>£000</b>
<b>Cost</b>	
At 31 March 2009	0
Purchases	120
At 31 March 2010	<u>120</u>
<b>Amortisation</b>	
At 31 March 2009	0
Provided in period	0
At 31 March 2010	<u>0</u>
<b>Net book value</b>	
At 31 March 2010	<u>120</u>
At 31 March 2009	<u>0</u>

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.

## Note 13: Fee debtors and work in progress

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
<b>Fee debtors</b>		
Assembly Government and related public bodies	173	134
Local government	542	825
National Health Service	715	221
<b>Work in progress</b>		
Assembly Government and related public bodies	420	486
Local government	151	346
National Health Service	26	344
	<u>2,027</u>	<u>2,356</u>

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

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Opening provision	136	89
Provision made in the year	144	47
Closing provision	<u>280</u>	<u>136</u>

## Note 14: Other debtors

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Other debtors	321	376
Prepayments	159	137
Loans to employees	7	19
	<u>487</u>	<u>532</u>

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

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Included in other debtors:		
housing relocation scheme: advances to staff	<u>5</u>	<u>14</u>

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

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	639	651
Local government bodies	736	1,171
NHS bodies	755	565
Balances with bodies external to government	384	501
	<u>2,514</u>	<u>2,888</u>

## Note 15: Cash at bank and in hand

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Current account	2,344	759
Euro account	1	0
Global Sterling Fund	951	297
	<u>3,296</u>	<u>1,056</u>

The Current account includes an overnight interest bearing facility. A Euro account was established during the year to simplify overseas transactions.

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

## Note 16: Creditors and accrued charges

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	175	168
VAT	226	368
Accrual for holiday entitlement not yet taken	558	420
Accruals	625	549
	<u>1,584</u>	<u>1,505</u>

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

## Note 17: Deferred income

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Deferred income	4,702	3,368
	<u>4,702</u>	<u>3,368</u>

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

The creditor balances in Notes 16 and 17 can be analysed into the following categories:

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	66	74
Local government bodies	2,711	2,197
NHS bodies	1,931	1,208
Public corporations	0	17
Balances with bodies external to government	1,578	1,377
	<u><b>6,286</b></u>	<u><b>4,873</b></u>

## Note 18: Provisions for liabilities and charges

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

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
<b>Non-current provisions</b>		
Opening balance	97	226
Provision in year		
redundancy and severance	715	0
dilapidations	48	40
Released and utilised in year in relation to dilapidations	(65)	(169)
Closing balance	<u><b>795</b></u>	<u><b>97</b></u>
<b>The provision is analysed as</b>		
Current liability		
redundancy and severance	715	0
Non-current liability		
dilapidations	80	97
	<u><b>795</b></u>	<u><b>97</b></u>

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

## Note 19: Reserves

### Revenue reserves

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

	31 March 2010	31 March 2009
	£000	£000
<b>Revenue reserves</b>		
<b>Central government</b>		
Brought forward	19	5
(Deficit)/surplus for year	(11)	14
Central government reserves	<u>8</u>	<u>19</u>
<b>Local government</b>		
Brought forward	55	45
Surplus for year	9	10
Local government reserves	<u>64</u>	<u>55</u>
<b>Health</b>		
Brought forward	34	48
Surplus/(deficit) for year	11	(14)
Health reserves	<u>45</u>	<u>34</u>
Total reserves	<u>117</u>	<u>108</u>

## Note 20: Reconciliation of operating surplus/(deficit) for year to net inflow from operating activities

	Year to	Year to
	31 March 2010	31 March 2009
	£000	£000
Operating surplus/(deficit)	1	(28)
Corporation tax	(1)	(9)
Notional cost	4	4
Depreciation	202	391
Loss on disposal of fixed assets	1	122
Reduction in debtors and work in progress	384	634
Increase/(decrease) in creditors and provisions	2,101	(252)
Net cash inflow from operating activities	<u>2,692</u>	<u>862</u>

## Note 21: Reconciliation of net cash inflow to movement in net funds

	<b>Year to 31 March 2010</b>	<b>Year to 31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Increase in cash	2,240	847
Change in net funds	2,240	847
Net funds at 1 April 2009	<u>1,056</u>	<u>209</u>
Net funds at 31 March 2010	<u><b>3,296</b></u>	<u><b>1,056</b></u>

## Note 22: Analysis of changes in net funds

	<b>At 1 April 2009</b>	<b>Cash flows</b>	<b>At 31 March 2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Short-term investments and cash at bank and in hand	1,056	2,240	<u><b>3,296</b></u>

## Note 23: Financial commitments

There are revenue commitments at 31 March 2010 in respect of non-cancellable car leases which expire:

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
Within one year	10	423
Within one to five years	582	60
	<u>592</u>	<u>483</u>

There were annual commitments as at 31 March 2010 to pay rentals under lease agreements which expire:

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>£000</b>	<b>Number of properties</b>	<b>£000</b>	<b>Number of properties</b>
Within one year	0	0	62	2
From one to five years	135	2	60	1
Over five years	4,825	2	5,314	2
	<u>4,960</u>	<u>4</u>	<u>5,436</u>	<u>5</u>

Office accommodation leases are subject to rent reviews.

## Note 24: Losses and special payments

There are no losses or special payments in 2009-10, except the loss on fixed assets as in Note 11, which require disclosure in accordance with the Financial Reporting Manual.

## Note 25: Derivatives and financial instruments

IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 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 the operations are financed, the 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 IAS 32 and IAS 39 mainly applies. Although the Auditor General can borrow funds the office has not been required to do so in this financial year. The Auditor General 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 normal activities.

As permitted by 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. The Auditor General 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 only very small forward purchases of foreign currency are made in connection with foreign travel and other associated costs such as hotels. Also, any fees generated from foreign work or secondments are translated when received. Any exchange differences are recorded in the statement of comprehensive income for the year in arriving at the operating surplus.

### Fair values

There is no difference between the book values and fair values of the Auditor General's financial assets and liabilities as at 31 March 2010 (31 March 2009; nil).

## Note 26: Contingent liabilities

The Auditor General has received an initial ruling from HM Revenue and Customs that the VAT status continues from previous legacy arrangements under the Audit Commission in Wales and the National Audit Office in Wales. This means that the Auditor General's inspection work is not a business activity for VAT purposes. In addition with the introduction of the Local Government (Wales) Measure 2009 this extends the ruling to cover this work. 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.

The Auditor General may face potential litigation by a member of staff following the outcome of a disciplinary investigation. Until various procedural issues are resolved in relation to this case it is not known if such litigation will proceed.

## Note 27: 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 Auditor General is a corporation sole established under statute and has had a number of material transactions with the National Assembly.

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:

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

<b>Audit Risk and Management Committee Member</b>	<b>Position held in year ending 31 March 2010</b>
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
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
Dr Michael P Brooker	Non-executive member of the Water Services Regulations Authority Non-executive member of the Water Industry Commission Scotland Non-executive member of the Natural Environmental Research Council
Haydn Warman	Governor of the University of Glamorgan
<b>Staff member</b>	<b>Position held in year ending 31 March 2010</b>
Alison Butler	Husband is the Director of Finance and Corporate Affairs of the National Leadership and Innovations Agency in Healthcare.
Margaret Griffiths	Husband operates a company providing consultancy services to a range of Welsh public sector organisations.
Louise Fleet	Board member of Ryder Cup Wales 2010 Ltd which received funding from the Assembly Government. She is also the Chairman of the Golf Union of Wales which receives funding from Sport Wales.
Gill Lewis	Husband was acting Chief Executive of the National Leadership and Innovations Agency in Healthcare until January 2010. He then became Director of Performance and Innovation at Cardiff and Vale Local Health Board.

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