

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

Annual Audit Report 2015

Welsh Ambulance Services NHS Trust

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Status of report

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This work was delivered by KPMG on behalf of the Auditor General for Wales.

Contents

Summary report	4
Detailed report	
About this report	7
Section 1: Audit of accounts	8
I have issued an unqualified opinion on the 2014-15 financial statements of the Trust, there were no issues that we were required to bring to the attention of officers and the Audit Committee	9
Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources	10
The Trust is likely to achieve financial balance at the end of 2015-16 because of additional funds allocated during the year from commissioners for agreed additional work	10
The Trust has made progress in addressing weaknesses in its governance arrangements, and performance in key areas is improving, however, fundamental gaps in the governance infrastructure remain. The Trust has plans in place to address this.	12
My performance audit work has identified that the Trust is making headway in developing and delivering its approach to change management, but opportunities to secure better use of resources remain in some areas	15
Appendices	
Reports issued since my last Annual Audit Report	18
Audit fee	19
Significant audit risks	20

Summary report

1. This report summarises my findings from the audit work I have undertaken at Welsh Ambulance Services NHS Trust (the Trust) during 2015.
2. The work I have done at the Trust allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and the Trust's arrangements to secure efficiency, effectiveness and economy in its use of resources.
3. My audit work has focused on strategic priorities as well as the significant financial and operational risks facing the Trust, and which are relevant to my audit responsibilities. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports are discussed and their factual accuracy agreed with officers and presented to the Audit Committee. The reports I have issued are shown in [Appendix 1](#).
4. The factual accuracy of this report has been agreed with the Chief Executive and the Director of Finance. It was presented to the Audit Committee on 7 January 2016. It will then be presented to a subsequent Board meeting and a copy provided to every member of the Trust Board. We strongly encourage wider publication of this report by the Trust Board. Following Trust Board consideration, the report will also be made available to the public on the Wales Audit Office's own website (www.audit.wales).
5. The key messages from my audit work are summarised under the following headings.

Section 1: Audit of accounts

6. I have issued an unqualified opinion on the 2014-15 financial statements of the Trust.
7. In addition, I placed a substantive report on the Trust's financial statements alongside my audit opinion. My report explains the new financial duties introduced on 1 April 2014 by the NHS Finance (Wales) Act 2014, the Trust's performance against them, and the implications for 2015-16.
8. I have also concluded that:
 - the Trust's accounts were properly prepared and materially accurate;
 - the Trust had an effective control environment to reduce the risks of material misstatements to the financial statements; and
 - the Trust's significant financial and accounting systems were appropriately controlled and operating as intended.
9. The Trust achieved financial balance at the end of 2014-15. I set out more detail about the financial position and financial management arrangements in section 2 of this report.

Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources

10. I have reviewed the Trust's arrangements for securing efficiency, effectiveness and economy in the use of its resources. This includes my Structured Assessment work which has examined the robustness of the Trust's financial management arrangements and the adequacy of its governance arrangements, including arrangements to plan effectively and gauging progress on quality governance and arrangements since last year. I have also reviewed the arrangements to support good use of resources as part of the Structured Assessment work, which is informed by performance audit on specific areas of service delivery. This work has led me to draw the following conclusions:

The Trust is likely to achieve financial balance at the end of 2015-16 because of additional funds allocated during the year from commissioners for agreed additional work.

11. The Trust is dependent on additional funding to achieve break-even at the 2015-16 year-end.
12. Savings plans for 2015-16 are predicted to underachieve by £0.511 million at year-end, and almost half of savings identified are non-recurring. However, the identification of recurring savings has improved significantly compared to the previous year. In 2014 less than 20 per cent of savings were recurring, while in 2015 this has increased to 50.8 per cent.

The Trust has made progress in addressing weaknesses in its governance arrangements, and performance in key areas is improving, however, fundamental gaps in the governance infrastructure remain. The Trust has plans in place to address this.

13. The Trust recognises that its approach to strategic planning in previous years has been weak and it is strengthening its approach for 2016-17 onwards. It has appointed additional senior staff to facilitate this.
14. The senior management structure has been reviewed to provide much needed additional capacity to the Executive team, such as the new Interim Director of Planning.
15. The Trust has refreshed its governance structures to improve clarity and efficiency, and it benefits from an experienced and well-informed Board, but systems for providing assurance to the board are underdeveloped and not consistently applied.
16. The Trust is strengthening its approach to performance management helped by an agreed performance framework with commissioners. Performance in important areas for the Trust is improving.

My performance audit work has identified that the Trust is making headway in developing and strengthening its approach to change management, but opportunities to secure better use of resources remain in some areas

17. The Trust has strengthened its approach to workforce and financial planning and is building change management capacity to enable priorities to be tackled. Strategic plans for the Trust's estate are being reviewed.
18. The Trust has made good progress in addressing most of the recommendations from previous audit work, however the action to improve performance reporting is still outstanding.
19. Trust communication mechanisms have not always been effective at keeping staff up to date with operational policy or procedures although this is being addressed by a new Director of Communications and Partnership.
20. We gratefully acknowledge the assistance and co-operation of the Trust's staff and members during the audit.

Detailed report

About this report

21. This Annual Audit Report to the Board members of the Trust sets out the key findings from the audit work that I have undertaken between December 2014 and November 2015.
22. My work at the Trust is undertaken in response to the requirements set out in the 2004 Act¹. That act requires me to:
 - a) examine and certify the accounts submitted to me by the Trust, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and
 - c) satisfy myself that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
23. In relation to c), I have drawn assurances or otherwise from the following sources of evidence:
 - the results of audit work on the Trust's financial statements;
 - work undertaken as part of my latest Structured Assessment of the Trust, which examined the arrangements for financial management, governance and accountability, and management of resources;
 - performance audit examinations undertaken at the Trust; and
 - the results of the work of other external review bodies, where they are relevant to my responsibilities.
24. I have issued a number of reports to the Trust this year. The messages contained in this Annual Audit Report represent a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
25. The findings from my work are considered under the following headings:
 - Section 1: Audit of accounts
 - Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources
26. [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Trust, alongside the original fee that was set out in the 2015 Audit Plan.
27. Finally, [Appendix 3](#) sets out the significant financial audit risks highlighted in my 2015 Audit Plan and how they were addressed through the audit.

¹ Public Audit (Wales) Act 2004

Section 1: Audit of accounts

- 28.** This section of the report summarises the findings from my audit of the Trust's financial statements for 2014-15.
- 29.** These statements are the means by which the organisation demonstrates its financial performance and sets out its surplus or deficit, recognised gains and losses, and cash flows. Preparation of an organisation's financial statements is an essential element in demonstrating appropriate stewardship of public money.
- 30.** In examining the Trust's financial statements, I am required to give an opinion on:
- whether they give a true and fair view of the financial position of the Trust and of its income and expenditure for the period in question;
 - whether they are free from material misstatement – whether caused by fraud or by error;
 - whether they are prepared in accordance with statutory and other requirements, and comply with all relevant requirements for accounting presentation and disclosure;
 - whether that part of the Remuneration Report to be audited is properly prepared; and
 - the regularity of the expenditure and income.
- 31.** In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).
- 32.** In undertaking this work, auditors have also examined the adequacy of the:
- Trust's internal control environment; and
 - financial systems for producing the financial statements.

I have issued an unqualified opinion on the 2014-15 financial statements of the Trust, there were no issues that we were required to bring to the attention of officers and the Audit Committee

The Trust's accounts were properly prepared and materially accurate

- 33.** I did not encounter significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work.
- 34.** I am required by ISA 260 to report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. There were no material issues that we judged worthy of reporting to the Trust's Audit Committee on 16 July 2015.
- 35.** As part of my financial audit, I also undertook the following reviews:
- Whole of Government Accounts return – I concluded that the counterparty consolidation information was consistent with the financial position of the Trust at 31 March 2015 and the return was prepared in accordance with the Treasury's instructions; and
 - Summary Financial Statements and Annual Report – I concluded that the summary statements were consistent with the full statements and that the Annual Report was compliant with Welsh Government guidance.
- 36.** My separate audit of the Trust's Charity financial statements is substantially completed and no issues have been identified which require reporting to the Audit Committee. The financial statements were formally approved, by the Board, on 24 September 2015, were signed by officers the same day and are due to be signed off by KPMG and Auditor General in December 2015.
- 37.** I reviewed the Trust's internal control environment by assessing the Trust's control arrangements over the main accounting and budgetary control systems, the local IT infrastructure and the work of Internal Audit. I did not identify any material weaknesses in your internal controls and noted that controls were operating as intended and formed a reliable basis for preparing the financial statements. I report these where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment.
- 38.** The Trust's significant financial and accounting systems were appropriately controlled and operating as intended.
- 39.** My review of the Audit and Assurance Service provided by the NHS Wales Shared Services Partnership concluded that the Audit and Assurance Service are planning to provide an all-Wales service that is compliant with the Public Sector Internal Audit Standards (PSIAS).

Section 2: Arrangements for securing efficiency, effectiveness and economy in the use of resources

- 40.** I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Trust over the last 12 months to help me discharge that responsibility. This work has involved:
- reviewing the Trust's financial management arrangements, including the progress being made in delivering cost saving plans and their contribution to achieving financial balance;
 - assessing the effectiveness of the Trust's governance arrangements through my Structured Assessment work, including review of the progress made in identified improvement areas since last year; and
 - assessing the progress the Trust has made in addressing the issues identified by previous audit work.
- 41.** The main findings from this work are summarised under the following headings.

The Trust is likely to achieve financial balance at the end of 2015-16 because of additional funds allocated during the year from commissioners for agreed additional work

- 42.** Despite recording a small deficit by the end of the financial year, the Trust met its financial targets after receiving additional funding in 2014-15.
- the Trust successfully implemented cost savings plans as budgeted, however these were not effective in bringing down total costs as expenditure for front line services rose dramatically;
 - the Trust again was unable to effectively and accurately forecast total expenditure in 2014-15 due to an unforeseeable increase in demand for front line services; and
 - additional revenue funding from WHSSC was required to meet its statutory break-even duty.

The Trust is dependent on additional funding to achieve break-even at the 2015-16 year-end

43. For 2014-15 the Trust achieved a surplus of £0.2 million. The £0.2 million surplus was achieved following an increased funding package which included a reprisal of the £5.6 million for front-line services from WHSSC and a further £8.75 million for Winter Services from Emergency Ambulance Services Committee (EASC).
44. This increased funding was required due to the trust focusing on improving operational performance and investing in staffing and other front line resources. This was in response to the Welsh Government's objective of improving ambulance response rates that had a direct impact on costs which all parties agreed.
45. This investment is demonstrated by the increased cost of staffing in the year (£4.1 million increase on 2013-14), the increase of £1.3 million for Services and Supplies and £0.8 million for support from other health bodies such as St. John's Ambulance.
46. With new commissioning arrangements only recently being established it has not been realistic for the Trust to develop a three year strategic plan and hence it is working to a one year plan for 2015-16 (awaiting approval by the Welsh Government):
 - The Board receives a full financial update at each meeting. The Trust has informed the commissioners and the Welsh Government about its financial position and they are aware of the circumstances under which the Trust is operating.
 - The reported outturn performance for the Trust based on the its Month 7 accounts is a retained deficit of £2.345 million.
 - Additional in-year allocation of funding has been received by the Trust to achieve financial targets. At Month 7 the Trust estimated that £4.411 million of income would be required to enable the Trust to achieve breakeven. This additional funding would provide additional capacity to support improvements in performance to support the Welsh Government's objective of improving ambulance response rates. This has a direct impact on costs which all parties have agreed.
 - The planned savings target for 2015-16 is £4.537 million with the year-end forecast of achieved savings at Month 7 totalling £4.026 million. This shows a forecast full year under-achievement of £0.511 million. Only 50.8 per cent of savings identified are of a recurring nature, so the Trust will have work to do to ensure sustained focus on savings planning. However, this compares favourably to the same period in 2014 when only 18 per cent of identified savings were recurring in nature. Non-recurring savings of £1.981 million plus the shortfall in savings of £0.511 million totalling £2.492 million will be required to be replaced by recurring saving schemes as part of the financial plan within the IMTP for the 2016-17 financial year.

The Trust has made progress in addressing weaknesses in its governance arrangements, and performance in key areas is improving, however, fundamental gaps in the governance infrastructure remain. The Trust has plans in place to address this.

47. This section of the report considers my findings on governance and board assurance, presented under the following themes:
- Strategic planning
 - Organisational structure
 - Board assurance and internal controls
 - Performance management
 - Information governance
 - Progress in responding to governance issues identified in last year's Structured Assessment
48. Capacity and capability of senior management has been improved to support the Trust's challenging change programme. Crucial expertise has been secured in programme management, financial planning, and workforce development, and management portfolios have been restructured. Governance structures have been reviewed and revised to improve accountability and agenda management, and the Trust has adopted a more structured and disciplined approach to change management and strategic planning. Key gaps in governance such as a robust risk management and board assurance approach and a performance management framework are yet to be implemented, but the Trust recognises the gap and has started work to enable these to be delivered in 2016-17.

The Trust recognises that its approach to strategic planning in previous years has been weak and it is strengthening its approach for 2016-17 onwards. It has appointed additional senior staff to facilitate this.

49. The Trust was unable to agree a Three Year IMTP with WG in 2015. This was partly due to the lack of maturity in commissioning arrangements at the start of the year, which are now much improved. The Trust has developed a one year 2015-16 operational plan (Year One Priorities) which, at the time of reporting, was with the Welsh Government for approval. The plan highlights the priorities and actions required in the year 2015-16 and takes into account feedback from WG and the Chief Ambulance Services Commissioner (CASC).
50. The Trust has struggled to develop an IMTP due to a lack of capacity and planning expertise. It has recognised this and appointed a Head of Strategic Planning and Development, and a Deputy Finance Director to facilitate this.

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51. The Trust has developed a planning programme that will enable a more inclusive approach to strategic planning for its three-year IMTP from 2016-17 based on directorate Local Delivery Plans aligned to the Trust's refreshed vision and strategic themes. A project plan and appropriate management arrangements are in place to deliver the three year IMTP by March 2016.

The senior management structure has been reviewed to provide much needed additional capacity to the Executive team

52. The CEO is developing the capacity of her senior management team, such as the new Interim Director of Planning, with some key appointments at third tier level in 2015 to support the Executive Team. Additional expertise is now in place for strategic planning, programme management, communications, workforce development, and financial planning. The Trust Secretary role has been relocated to the Cwmbran HQ to improve efficiency and effectiveness of corporate governance given that the majority of the Trust's corporate operations are now based there.

The Trust has refreshed its governance structures to improve clarity and efficiency, and it benefits from an experienced and well-informed Board, but systems for providing assurance to the board are underdeveloped and not consistently applied

53. The Chair of the Board reviewed the Trust's governance structure in 2015. The committee structure has been changed to ensure clearer focus and accountability, and better agenda balance. The Trust now has three sub committees (Finance and Resources, Quality, Patient Experience and Safety Committee (QUEST), and Audit Committee). The previous Strategic Transformation Board has now been subsumed into the Executive Team following the non-executives' growing confidence in programme management arrangements at the Trust.
54. The Trust Board benefits from experienced and well-informed non-executives who continue to provide a good level of challenge to the executive team.
55. The Trust does not yet have an effective and fully functioning Board Assurance Framework (BAF) in place. The Trust has a corporate risk register that is reviewed by the Executive Team and the Board from time to time, but a more robust process of risk management with sufficient executive scrutiny is required along with the development of an effective BAF. Work to develop an effective approach has been commissioned and reported, but it is too early to see the impact of this work.

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- 56.** As part of my commitment to help secure and demonstrate improvement through audit work, I have reviewed the effectiveness of the Trust's arrangements to manage and respond to recommendations made as part of my nationally mandated and local programme of audit work during 2015. This work has found that the Trust has formalised and improved its approach to tracking recommendations from external and internal audit. Most of the recommendations from our Structured Assessment in 2014 have been actioned and cleared from the tracker. However, the robustness of the process is still reliant on the corporate discipline of senior managers and directors to report actions, which has been inconsistent often due to stretched resources. In developing the top team the CEO is aiming to improve this 'corporate discipline' in the completion of corporate activities such as audit tracking and scrutiny of corporate risks.

The Trust is strengthening its approach to performance management helped by an agreed performance framework with commissioners. Performance in important areas for the Trust is improving.

- 57.** The development of the new clinical model with commissioners has resulted in a new suite of KPIs that are to be regularly reported to the EASC. The one year operational plan has been refreshed and includes a draft balanced scorecard, from which a revised high level set of indicators will be developed linked to clinical model priorities. The development of a performance management framework for the Trust is listed as a priority in the Year One Priorities plan but has not yet been developed and approved.
- 58.** The first stage in the development of the framework is to embed performance management through an improved planning mechanism. The Trust is developing its approach to planning to ensure it is aligned to the financial planning timetable and the development of the 2016-2019 IMTP.
- 59.** Signs of improvement in performance have been seen in several areas such as reduced sickness levels and improved ambulance response times. Levels of staff sickness have reduced significantly from around nine per cent in July 2014 to 6.5 per cent in July 2015. The first month of roll-out of the new clinical response model (October 2015) saw the Trust exceed its Red Call response target (65 per cent), achieving the eight-minute response on 68.7 per cent of occasions.

My performance audit work has identified that the Trust is making headway in developing and strengthening its approach to change management, but opportunities to secure better use of resources remain in some areas

The Trust has strengthened its approach to workforce and financial planning and is building change management capacity to enable priorities to be tackled. Strategic plans for the Trust’s estate are being reviewed

60. My Structured Assessment work has reviewed how a number of key enablers of efficient, effective and economical use of resources are managed. This work has indicated that the Trust is making progress in a number of areas relating to the management of resources that I highlighted in previous years’ Structured Assessments but is yet to develop effective plans for its assets. Key findings are summarised in [Exhibit 1](#).

Exhibit 1: Structured Assessment – key enablers of effective use of resources

Issue	Summary of findings
Change management capacity	The Trust has developed a more structured and disciplined approach to managing change through programme management. The Trust has established programme boards for each of its six change programmes and each has an Executive Officer lead. The programme boards take responsibility for delivering the outcomes described in the relevant ‘plans on a page’ and programme documentation. This includes management of time, and resources, plus any risks, issues and any programme specific benefits. Boards are responsible for managing the delivery of the constituent projects within their programme and holding project leads to account. Though programme management arrangements are robust, administrative resources to service the programme are limited and this may impact on its pace of delivery.
Workforce planning	The agreement of the Clinical Model with commissioners is allowing the Trust greater clarity on developing its workforce plan which forms a key programme in the Trust’s change portfolio. The Trust is improving its capacity and capability to report on workforce performance, and workforce metrics, such as sickness, are showing improvement compared to previous years.

Issue	Summary of findings
Estates and assets	The Trust has developed a Strategic Outline Programme for its estate that is currently with WG for agreement. The Year One Priorities Plan recognises that the strategy for its estate will be to maintain it to the statutory minimum standard, recognising that most of the buildings operated by the Trust are outdated, attract significant backlog maintenance and require rationalisation. A review of the estate will now be required to align with clinical model and workforce needs.
Partnership working	The establishment of the EASC has facilitated an increased collaborative approach with partners. The Year One Priorities Plan sets as one of its priorities in 2015-16 to develop a stakeholder engagement plan to help further improve partnership working.

The Trust has made good progress in addressing most of the recommendations from previous audit work, however the action to improve performance reporting is still outstanding.

61. In addition to reviewing the effectiveness of the Trust's arrangements to manage and respond to recommendations made as part of our my nationally mandated and local programme of audit work as discussed in [paragraph 56](#) my work has found that:
- Our recommendation from 2014 to improve the reporting of savings performance by reporting actual progress of individual savings plans to Board has been addressed. Variances from the savings plan are now detailed by individual project in an annex to the Board finance report.
 - The 2014 recommendation for governance structures to be reviewed to aid clarity of roles and to improve balance of agendas was completed and revisions made to the governance structure.
 - The recommendation to review the effectiveness of the Organisational Learning Group (OLG) to aid learning from user feedback has been addressed. The OLG has reviewed and revised its terms of reference and changed its membership to include non-executive and executive input. It will undertake a number of in-depth reviews each year of risks identified through patient and user feedback.
 - The recommendation from 2014 to improve performance reporting has not been addressed. Though the format of the report has been improved the use of external benchmarking to compare performance and the forecasting of year-end performance have not been included. Performance is also still reported to Board two months in arrears. Changes to the performance report are dependent on the emerging planning and performance framework.

Trust communication mechanisms have not always been effective at keeping staff up to date with operational policy or procedures.

62. My performance audit work into issues raised through correspondence with an Assembly Member found that the majority of concerns raised did not have substance. However, it was evident why members of staff had raised these concerns. I therefore have no reason to doubt that the issues were raised in good faith.
63. Though the most serious concerns raised, the potential manipulation of response times, and patient safety concerns, were unsubstantiated, in a small number of instances, I was unable to obtain sufficient assurance from the Trust's Management that the concerns raised were unfounded and we therefore recommended that the Trust carry out further internal review work in certain areas.
64. It was apparent that several of the concerns arose because those members of staff who raised the concerns were not aware of changes in operational policy or did not have a full understanding of the Trust's systems and procedures. Whilst reviewers were told by the Trust's Management that considerable effort has been made to improve communication with staff, the Trust needs to continue to give consideration to the effectiveness of its staff communication strategy and mechanisms.
65. The Trust has been very proactive in encouraging members of staff to raise concerns internally. It is therefore disappointing that some members of staff still feel it necessary to raise their concerns externally. I recognise that it can take a long period of time to change cultural perspectives and it is therefore important that the Trust continues to promote a spirit of openness and to remind staff of the mechanisms they can use to raise concerns. Since our review a new Director of Communications and Partnerships has been appointed to strengthen the Trust's approach.
66. Whilst I do not propose to undertake any further in depth investigations into the concerns that were raised, I have made a number of recommendations for the Trust to consider, and respond to. I will review progress in implementing these recommendations as part of my 2016 performance audit work at the Trust.

Appendix 1

Reports issued since my last Annual Audit Report

Report	Date
Financial audit reports	
Audit of Financial Statements Report	July 2015
Opinion on the Financial Statements	July 2015
Performance audit reports	
Review of issues raised in correspondence with the Auditor General for Wales	October 2015
Structured Assessment for 2015	December 2015
Other reports	
2015 Audit Plan	February 2015

Appendix 2

Audit fee

The 2015 Audit Plan set out the proposed audit fee of £139,500 (excluding VAT). My latest estimate of the actual fee, is in accordance with the fee set out in the outline.



Appendix 3

Significant audit risks

My 2015 Audit Plan set out the significant financial audit risks for 2015. The table below lists these risks and sets out how they were addressed as part of the audit.

Significant audit risk	Proposed audit response	Work done and outcome
Risk of Financial Statement Manipulation.	Increase work surrounding judgemental accounting areas.	Accruals looked at in detail with no issues noted. Contingent Liabilities were found to be overstated due to mathematical error of a spreadsheet. All profit and loss items otherwise found to materially correct.

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