Comptroller and Auditor General
Special Report

Public Sector Financial Reporting for 2016

Report number 100 **June 2018**

Report of the Comptroller and Auditor General

Public Sector Financial Reporting for 2016

I have carried out a review of financial reporting by public bodies in respect of periods of account ending in 2016. In accordance with the provisions of Section 11 of the Comptroller and Auditor General (Amendment) Act 1993, I have prepared this report on the findings of my examination.

This report was prepared on the basis of information, documentation and explanations obtained from the public bodies referred to in the report. The draft report was sent to the Department of Public Expenditure and Reform and the Department of Education and Skills. Relevant extracts were sent to the other public bodies referred to. Where appropriate, comments received from the Departments and the public bodies were incorporated in the final version of the report.

I hereby submit my report for presentation to Dáil Éireann in accordance with Section 11 of the Act.

Seamus McCarthy

Seamus McCarthy
Comptroller and Auditor General

22 June 2018

Contents

Summary

Summary

Timely preparation and publication of audited financial statements is fundamental to accountability and effective oversight of public bodies. For the 2016 year of account, the Comptroller and Auditor General was responsible for the audit of the annual financial statements of 287 public bodies and funds with an aggregate turnover of €218 billion.

This report reviews the timeliness of public sector financial reporting and focuses mainly on financial statements for periods ending in 2016. It reviews those bodies where delays in reporting have occurred and the causes of those delays. The report also summarises the types of issue that were brought to attention in the Comptroller and Audit General's audit reports on financial statements for 2016. Similar reports on financial statements for periods ending in 2015 and 2014 have previously been published.[1]

Production of financial statements and audit completion

In general, public sector bodies are required to present their financial statements for audit within two to three months of the end of their accounting period. All Government departments and offices produced their 2016 appropriation accounts within the required three months. Half of other bodies produced draft financial statements for audit within three months of the end of their accounting period. This represents a progressive improvement since the 2014 period of account.

By the end of September 2017, almost two thirds of bodies had produced audited financial statements. These accounted for 97% of the value of turnover audited.

Presentation of accounts to the Oireachtas

Audited financial statements are generally required to be presented to the Oireachtas within three months of audit certification. Some 80% of 2016 financial statements certified and due for presentation at April 2018 were presented on time. This compares to less than 60% for 2014 financial statements when measured in November 2016. In their appropriation accounts, Government departments are now required to include a status report on the presentation to the Oireachtas of audited financial statements of bodies and funds for which they are responsible. This should increase the monitoring by Government departments of the production of audited financial statements by bodies which they oversee.

1 Special Report 99, *Financial Reporting in the Public Sector for 2015* and Special Report 95, *Financial Reporting in the Public Sector.*

Accounts in arrears

At the end of 2017, there were 13 sets of financial statements that had not yet been certified. This represents a significant improvement since the end of 2015 when there were 25 accounts in arrears. Systemic delays in certain sectors are being addressed in a co-operative way.

Six accounts of education and training boards were in arrears at the end of 2017. While improvements are evident, the significant organisational change that the sector underwent from 2013 continues to be a contributory factor to the delays.

The university sector, which previously had a high incidence of accounts in arrears, has shown significant improvement. The one account for 2015/2016 that was in arrears at the end of 2017 has since been certified.

Matters referred to in audit reports

Most 2016 financial statements received a clear audit opinion — just three of those certified to date were qualified.

'Emphasis of matter' paragraphs are brought to attention to help users' understanding of the information in the financial statements. The audit reports issued to date for 2016 financial statements highlighted 48 matters of that kind. Most of the matters reported arise from public bodies that produce accrual accounts not accounting for pensions in the standard way. The approach to accounting for pensions in these cases is being reviewed.

Other matters are referred to in audit reports on an exception basis where it is considered appropriate to bring the matter to the attention of the Oireachtas. Such matters generally relate to losses or ineffective use of public funds, or governance and control issues. There were 71 such matters identified in the audit reports issued to date for 2016. Cases where public bodies procured goods and services without appropriate competitive processes accounted for over half of the matters reported.

Public Sector Financial Reporting for 2016

1 Introduction

1.1 For the 2016 year of account, the Comptroller and Auditor General was responsible for the audit of the annual financial statements of 287 public bodies.[1] These include government departments, departmental funds and a range of semi state bodies that are responsible for the management of a significant amount of public money (Figure 1.1).

Figure 1.1 Public bodies audited by the Comptroller and Auditor General

Bodies audited are responsible for the management of a significant amount of public funds ….

Category	Number of entities	2016 turnover[a] €billion
Central government		
▪ Central fund related accounts	11	125.5
▪ Appropriation accounts	40	44.9
▪ Departmental funds	17	13.2
Semi-state agencies (non commercial)	142	13.2
HSE and health agencies	28	16.4
Third level education bodies	26	2.9
Education and training boards	16	1.9
North/ South bodies	7	0.1
Total	**287**	**218.1**

Source: Office of the Comptroller and Auditor General

Note: a Turnover is generally measured on the basis of gross expenditure. However, where the main function of the body/fund is the collection of revenues, the gross revenue figure is used.

1.2 Public bodies account for their management of public funds, and associated assets and liabilities, through their annual audited financial statements. The preparation and publication of audited financial statements is an important aspect of each body's financial management. Timely and accurate financial statements with an unmodified audit report is an indication of effective management of public funds by a body. It can also give an indication of the body's ability to meet its broader responsibilities.

1.3 The audit of the financial statements of public sector bodies plays an important role in providing assurance that public funds and resources have been used in accordance with the law, managed to good effect and properly accounted for. In addition, audits identify issues which can assist public bodies in improving financial management, governance and propriety in the conduct of public business.

1.4 Timely preparation and publication of audited financial statements is a key element in public accountability and in providing effective oversight of public bodies. If publication is not timely, the information reported is less relevant, and effective accountability is more difficult to achieve.

1 Comprises periods of account ending in 2016. Most public bodies account on a calendar year basis. Some bodies (especially in the education sector) account on a 12-month academic cycle that does not coincide with a calendar year.

1.5 This report focuses primarily on the timeliness of public sector financial reporting for periods of account ending in 2016 (Chapter 2).[1] It identifies those bodies where delays have occurred in reporting, and the causes of such delays (Chapter 3). It also provides an overview of the outcome of the audits (Chapter 4).

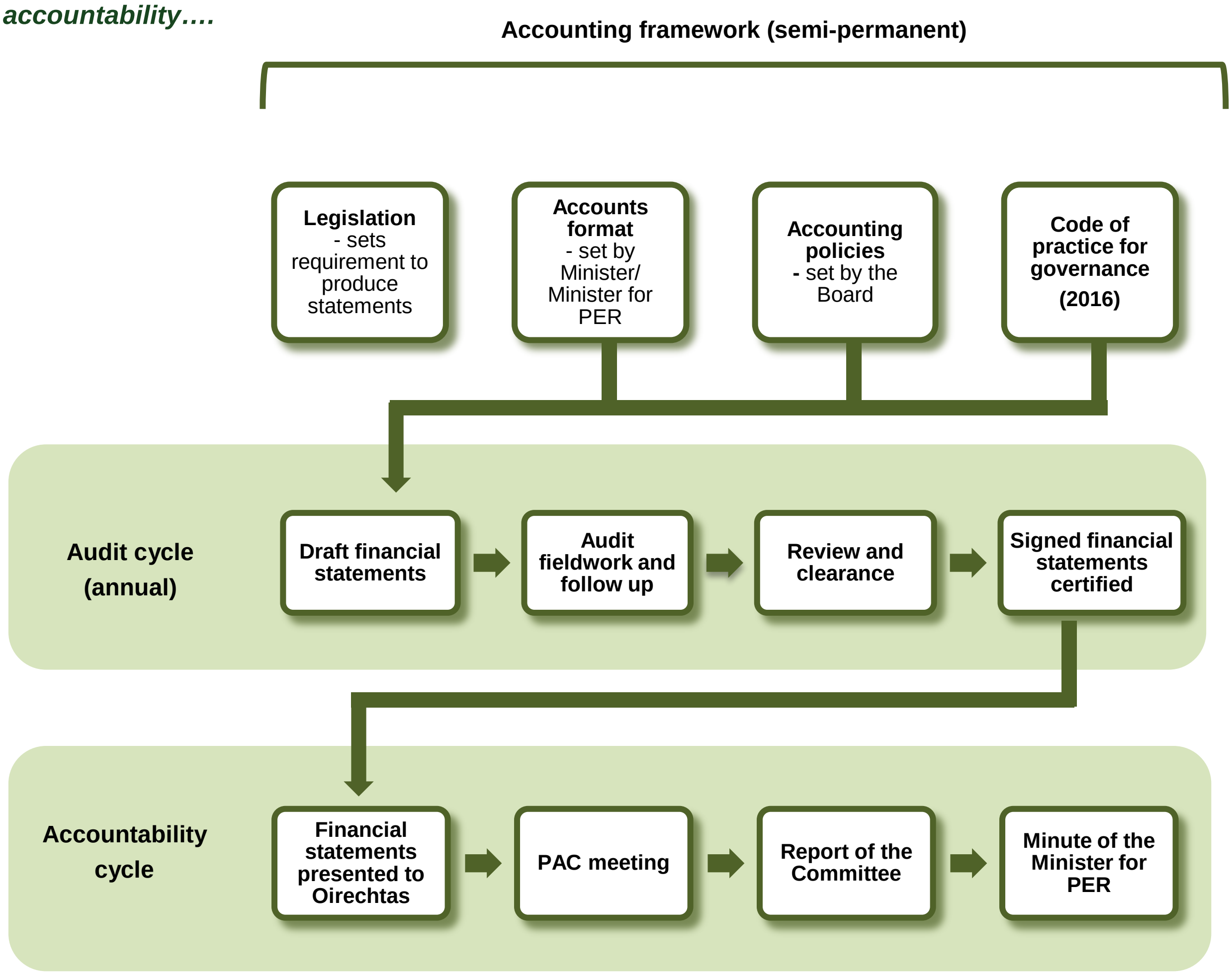
1 Similar reports were published focusing on financial statements for periods ending in 2015 and 2014. Special Report 99, *Financial Reporting in the Public Sector for 2015* and Special Report 95, *Financial Reporting in the Public Sector.*

2 Preparation and audit of financial statements

2.1 The process of producing audited financial statements for presentation to the Houses of the Oireachtas involves interaction between the audited entity, the Office of the Comptroller and Auditor General and the overseeing Government department. Figure 2.1 outlines the accounting and audit process.

Figure 2.1 Overview of public sector financial audit and reporting

The legislative framework for financial reporting sets the context for auditing and public accountability….



Source: Office of the Comptroller and Auditor General

Production of financial statements for audit

2.2 Public bodies are required to ensure that arrangements are in place to record all transactions, to produce accurate accounts, and to facilitate a prompt and efficient audit. The responsibility for the preparation of appropriation accounts and the financial statements of departmental funds rests with the accounting officer of each department. In the case of most other bodies, the board of the body is responsible for the preparation of the financial statements. In presenting financial statements for audit, a body is making assertions in relation to the recognition, measurement and presentation of the transactions and balances, and the related disclosures, in those financial statements. In general, those assertions are that

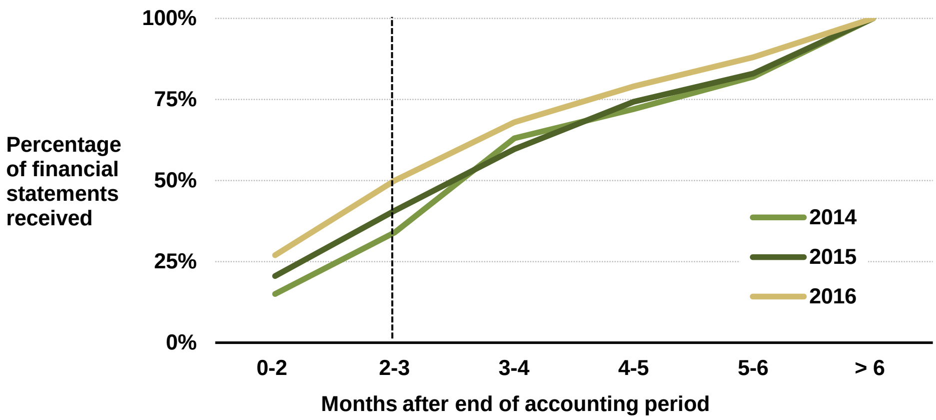
- the transactions have occurred, and the assets and liabilities exist and are proper to the body
- all items have been recorded and disclosed correctly and accurately
- the transactions have been recorded in the correct period
- the information is clearly presented
- the transactions are in accordance with the legal authority governing them.

2.3 Time targets for the production by public bodies of financial statements for audit and for the publication of audited financial statements have evolved in a piecemeal way, with the result that different targets apply to different categories of body.[1] For some bodies, targets have been specified in legislation. For others, targets are implicit in standards set out in codes of governance practice. For some bodies, no targets exist. The targets for production of financial statements that have been set range from two months to six months after the end of the period of account.

2.4 For most bodies, financial statements should be presented for audit within two to three months of the end of the accounting period. For 2016, all appropriation accounts were produced by the required deadline (three months). For other accounts, half of bodies submitted their 2016 financial statements for audit within three months of the end of their accounting period. This compares with about 40% of bodies for 2015 and only around one third of bodies for 2014 (Figure 2.2).

Figure 2.2 Production of financial statements for audit (other than departmental appropriation accounts), 2014, 2015 and 2016 years of account

There has been some improvement in the overall timeliness of presentation of financial statements for audit….



Source: Office of the Comptroller and Auditor General

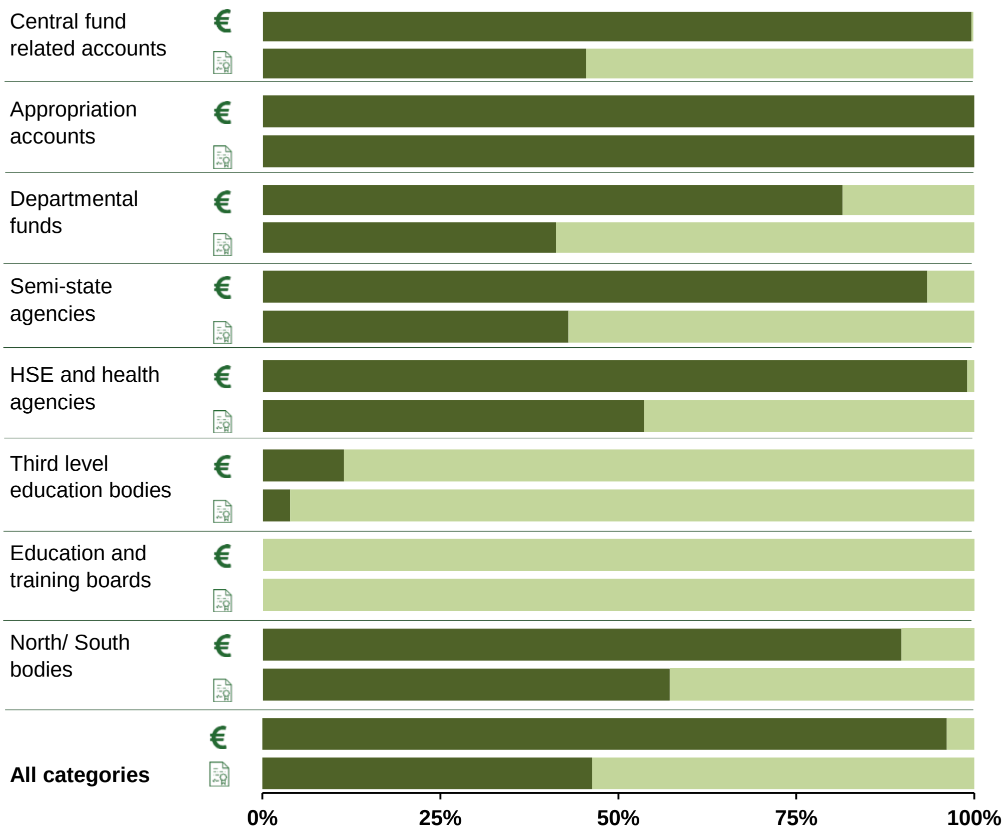
1 See Appendix A.

Audit completion

2.5 Timeliness of audit completion is measured on the basis of the level of turnover (generally gross expenditure) and on the number of audits. The level of compliance with completion targets[1] for the audits of 2016 financial statements for each category of body is shown in Figure 2.3. Overall, audits accounting for 96% of the total turnover subject to audit were completed on time. This represented 46% of the number of audits.

Figure 2.3 Compliance with audit completion targets, 2016 audits (number and value)

Third level education bodies and ETBs were the slowest in producing audited financial statements ….



Source: Office of the Comptroller and Auditor General

Notes: Compliant.
Non-compliant.
€ Value of accounts.
Number of accounts.

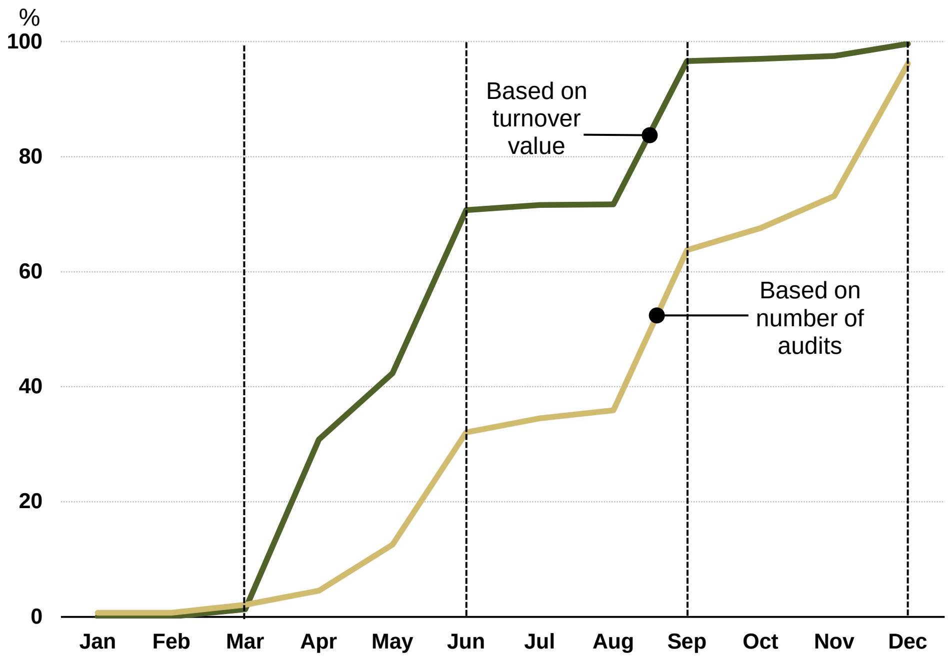
1 Actual or implied targets. In the case of education bodies, where completion targets do not exist, compliance is measured at six months after the end of the period of account. For departmental funds that do not have a completion target, compliance is measured at nine months to align with the statutory date for appropriation accounts.

2.6 The profile of audit completion in 2017 by number and turnover is shown in Figure 2.4. Throughout the year, the higher percentage of audits completed when measured by turnover, compared to the number of audits completed, reflects the prioritisation of bodies with high turnover. By the end of September 2017, almost two thirds (64%) of audits had been completed, but this represented 97% of the value of turnover audited.

2.7 At the end of 2017, 96% of audits were completed representing 99.6% of the total turnover.[1]

Figure 2.4 Audit completion profile 2017 (2016 year of account)

Higher turnover bodies had audited financial statements earlier….



Source: Office of the Comptroller and Auditor General

1 This refers to 2016 accounts. In addition, 14 accounts, relating to prior years (2014 and 2015), all in arrears at the end of 2016, were certified in 2017.

Presentation of accounts to the Oireachtas

2.8 The presentation of audited financial statements to the Houses of the Oireachtas plays a crucial role in public accountability. Most financial statements audited by the Comptroller and Auditor General are required by law to be laid before the Oireachtas. Even where not formally required by law, in the interests of public accountability, all financial statements audited by the Comptroller and Auditor General should be presented.

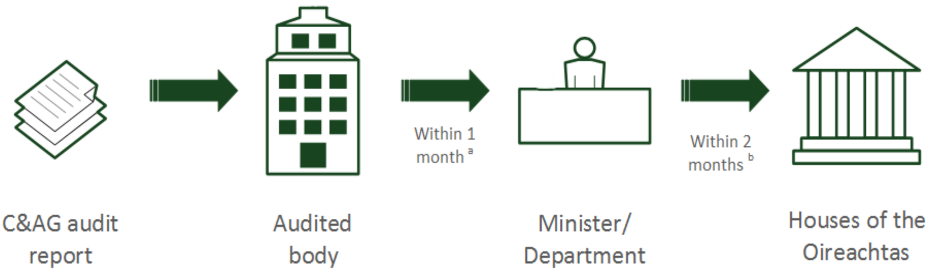
2.9 Presentation makes important information about the use of public funds and the financial performance of state bodies available to the Oireachtas and to the public. Financial statements when presented are available to members of the public on the Houses of the Oireachtas website.

2.10 The Comptroller and Auditor General is responsible for the presentation of the appropriation accounts of Government departments and offices, which are also published on the Office of the Comptroller and Auditor General website. Responsibility for the presentation of audited financial statements of all other bodies rests with the relevant parent department.

Timeliness of presentation

2.11 In most cases, audited financial statements should be presented to the Oireachtas within three months of certification. Figure 2.5 presents an overview of the requirements. When the audited financial statements of a body or fund are presented to the Oireachtas, they are automatically referred to the Public Accounts Committee (PAC).[1]

Figure 2.5 Timelines for presentation of audited financial statements



Source: Department of Public Expenditure and Reform Circular 7/2015

Notes: a Within 3 months if financial statements are required to be adopted at a company annual general meeting.

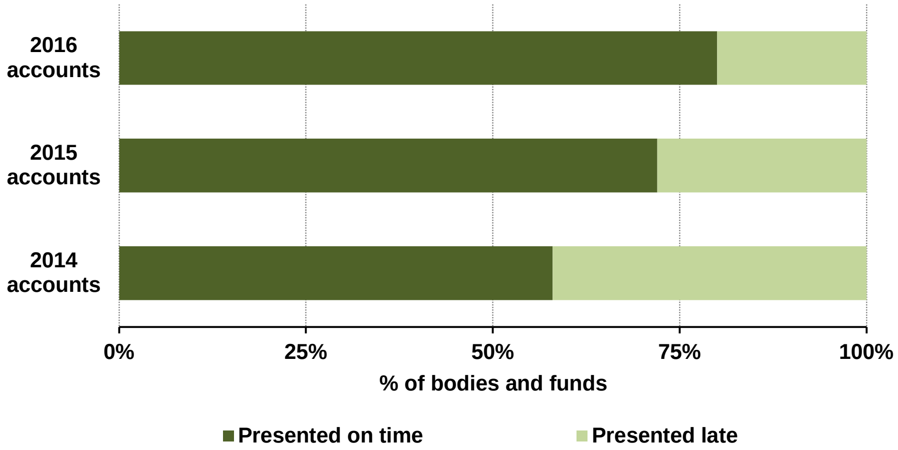
b Within 3 months if financial statements must first be presented to Government.

1 The relevant department should inform the clerk to the PAC if exceptional or unusual circumstances cause an unavoidable delay.

2.12 There has been an improvement in the timeliness of presentation of audited financial statements, as shown in Figure 2.6. Excluding appropriation accounts which were all presented on time, 80% of 2016 financial statements certified and due for presentation at 30 April 2018 were presented on time compared with less than 60% for 2014.[1]

Figure 2.6 Timeliness of presentation to Oireachtas of audited financial statements, 2014, 2015 and 2016 years of account

There has been a signficant improvement in the timeliness of presentation of financial statements to the Oireachtas since 2014 ….



Source: Analysis by the Office of the Comptroller and Auditor General

Notes:
a Timeliness of presentation is shown for all 2014 accounts certified in 2015, all 2015 accounts certified in 2016 and all 2016 accounts certified in 2017.
b Appropriation accounts are not included as departments are not responsible for their presentation. All appropriation accounts for each year were presented on time.
c Accounts presented late include accounts where presentation is due but the accounts had not been presented when the analysis was carried out.
d Although there are exceptions contained in Circular 7/2015 for accounts which must either be presented to Government or adopted at an AGM, the vast majority of accounts should be presented to the Oireachtas within 3 months of certification. This is the basis upon which late presentation was measured.

2.13 Previously, there was no system in place to monitor the extent to which financial statements had been presented to the Oireachtas. With effect from the 2017 appropriation accounts, Government departments are required to include an annex to their annual appropriation account giving a report on the presentation to the Oireachtas of the audited financial statements of bodies and funds under their aegis.[2]

1 The timeliness of presentation of 2014 financial statements was measured at November 2016.

2 Department of Public Expenditure and Reform Circular 25/2017, *Requirements for Appropriation Accounts 2017*, 21 December 2017.

Conclusion

2.14 Financial reporting by central government departments and offices is by means of appropriation accounting and follows a fixed statutory timeframe. Obligations for financial reporting by other public bodies audited by the Comptroller and Auditor General are diverse.

2.15 As a result of greater emphasis on the need for timely reporting, and good cooperation, there has been a progressive improvement in the timeliness of financial reporting by non-departmental public bodies. As a result

- 50% of non-departmental public bodies had submitted their 2016 draft financial statements within 3 months of the end of the year of account
- audited financial statements for two-thirds of public bodies were available for presentation to the Houses of the Oireachtas by end September 2017 — these accounted for 97% of the value of turnover for audit
- 80% of the audited financial statements of non-departmental public bodies were presented to the House of the Oireachtas on time.

2.16 Monitoring by Government departments of the production of audited financial statements should be increased as a result of the requirement from 2017 on for departments to include with their annual appropriation account, a status report on the presentation to the Oireachtas of audited financial statements of bodies and funds under their aegis.

3 Accounts in arrears

3.1 Accounts not certified by the end of the year following the year of account are referred to as accounts in arrears. Cooperation, good planning and sufficient capacity on both sides are the principal factors that contribute to timely audit completion. The main factors that give rise to delays are summarised in Appendix B.

3.2 At the end of 2017, there were 13 accounts in arrears including two for periods of account ending in 2015 (Figure 3.1). This compares to 16 accounts in arrears at the end of 2016 and 25 at the end of 2015.

Figure 3.1 Accounts in arrears at year end 2017

Type/name of body	
Education and Training Boards	
Kildare and Wicklow	2015 and 2016
Limerick and Clare	2016
Louth and Meath	2015 and 2016
Mayo, Sligo and Leitrim	2016
Higher education bodies	
Dublin City University	2015/2016
Dundalk Institute of Technology	2015/2016
Waterford Institute of Technology	2015/2016
National College of Art and Design	2015/2016
Other bodies	
Educational Research Centre	2015/2016
Residential Institutions Statutory Fund Board	2016
National Treatment Purchase Fund	2016

Source: Office of the Comptroller and Auditor General

Education and training boards

3.3 Six of the 13 accounts in arrears at end 2017 related to education and training boards (ETBs). The 16 ETBs were established on 1 July 2013 and their first period of account was the 18 months to the end of 2014. They use a common reporting framework and, since 2015, they prepare accounts on a calendar year basis.

3.4 Delays in agreeing the format of the ETB accounts, and challenges in amalgamating systems operated by the predecessor vocational education committees caused significant delays for many ETBs in producing 2013/2014 financial statements. However, most ETBs have recovered lost ground since then as is demonstrated in Figure 3.2.

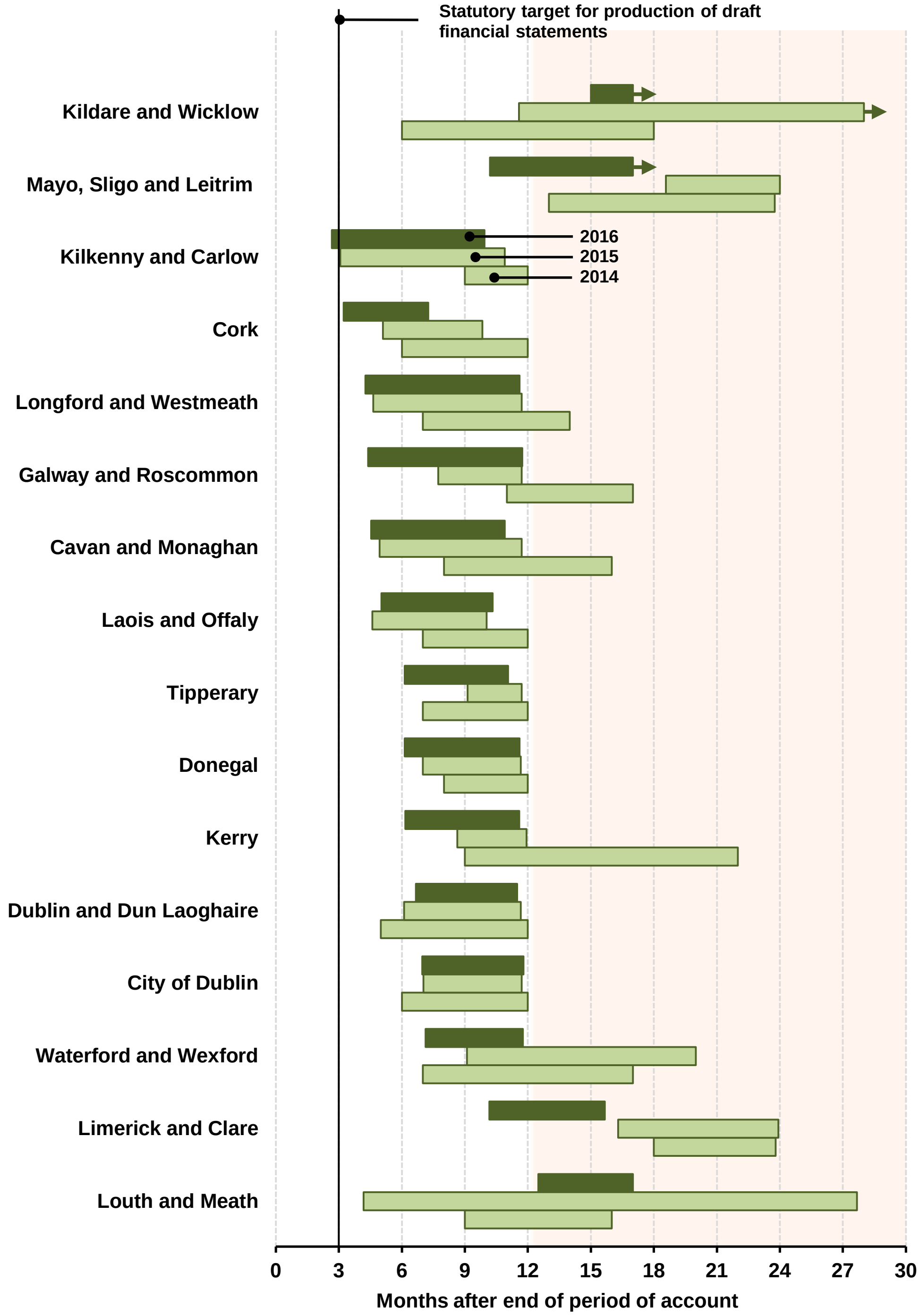
3.5 The six ETB accounts in arrears at the end of 2017 related to four ETBs — in two cases both the 2015 and 2016 audited financial statements were outstanding at end 2017

- Louth and Meath ETB — Issues arose during the audit of the 2015 financial statements which the ETB was still seeking to resolve at the end of 2017 to enable the audit to be finalised. The 2015 financial statements were certified in April 2018 and the 2016 financial statements were certified in May 2018.
- Kildare and Wicklow ETB — Significant issues of concern were identified during the audit of the 2015 financial statements. These were brought to the attention of the ETB and the Department of Education and Skills in June 2017. Following this, the Department appointed a statutory investigator in October 2017 to examine the performance by the ETB of its functions, including matters in relation to public procurement, usage and disposal of assets, and propriety. These matters have a direct relevance to the 2015 and 2016 audits and their completion. The investigator has provided his report to the Department, and is currently updating it to include certain clarifications sought by the Department. The audit of the 2015 financial statements has resumed, and a report on the matters is being prepared under section 7(4) of the Comptroller and Auditor General (Amendment) Act 1993.
- Mayo, Sligo and Leitrim ETB and Limerick and Clare ETB encountered problems in producing draft financial statements that took longer to resolve than was the case for other ETBs. Progress has been made in both cases, with 2016 draft financial statements being produced earlier than for the previous year. Limerick and Clare ETB’s 2016 financial statements were certified in April 2018. It is expected that Mayo, Sligo Leitrim ETB’s 2016 financial statements will be certified by end July 2018.

3.6 There is a statutory requirement that ETBs submit their draft financial statements by 1 April of the following year i.e. within three months of the end of the period of account. For the 2016 year of account, only one ETB met the statutory requirement. In total, nine had submitted draft financial statements suitable for audit within six months. For the 2017 year of account, all ETBs submitted draft financial statements by the required statutory submission date.

Figure 3.2 Timeliness of Education and Training Boards audits 2013/2014 to 2016, as at 31 May 2018

For most ETBs, there has been an improvement in the timeliness of production of audited financial statements ….



Source: Office of the Comptroller and Auditor General

Note: The chart shows the progress of each audit from the receipt of financial statements suitable for audit until certification. → indicates the process is ongoing.

Higher education bodies

3.7 Delays in the production and presentation of audited financial statements was a feature of the higher education sector. Significant progress has been made but a number of institutions still need to improve their performance in that regard.

Universities

3.8 Universities account on an academic year basis (1 October to 30 September). The Comptroller and Auditor General has powers under the University Act 1997 to specify the date for submission of financial statements for audit. The target set for submission of 2015/2016 financial statements was five months after the year of account i.e. 28 February 2017. Trinity College Dublin, Maynooth University and University College Dublin met this target.

3.9 In the past, there was a general problem of late submission of draft financial statements for audit, and protracted audits, resulting in a significant number of arrears. The situation has improved significantly. For example, six sets of financial statements for four universities were in arrears at the end of 2015. At the end of 2017, only the financial statements of Dublin City University (DCU) were in arrears. In that case, a number of issues raised by the audit were outstanding at the end of 2017. DCU's financial statements were certified on 4 May 2018.

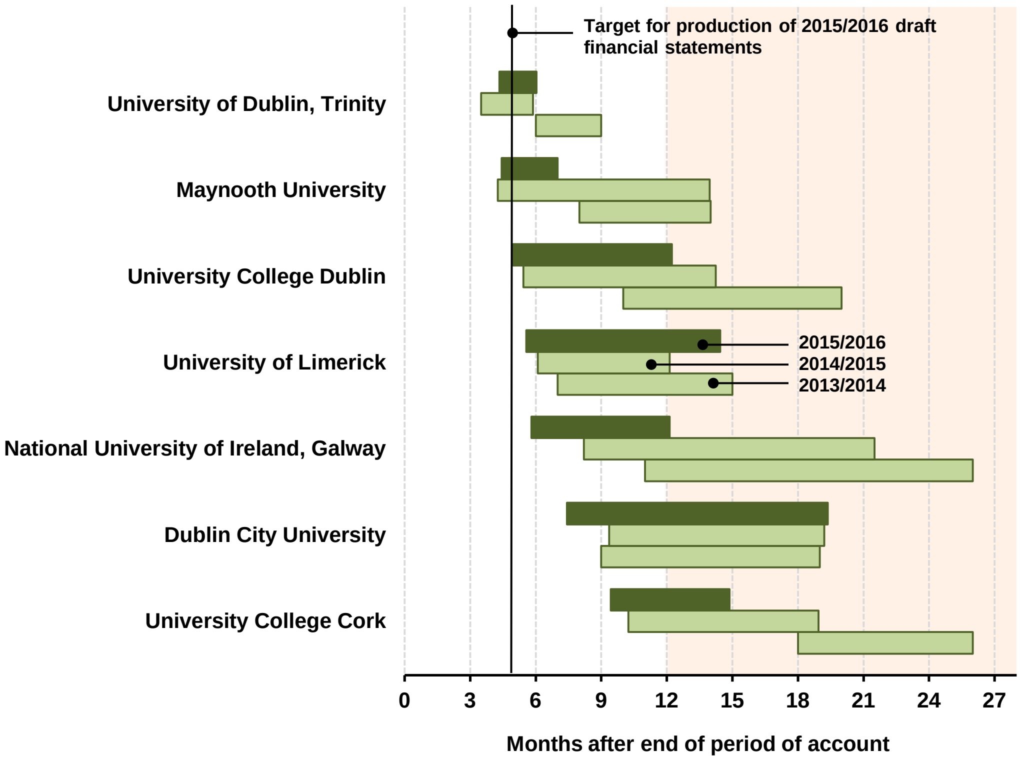
3.10 DCU has stated that there were specific, exceptional issues which occurred at the same time as the financial statements were being prepared under a new accounting framework (FRS 102) and which increased the timeline for the production of those financial statements, including

- The consolidation of the DCU Educational Trust for the first time. As the Trust has a different year end to DCU, the preparation of the accounts necessary to enable consolidation was a novel and complicated process.
- DCU was also engaged in a project involving the incorporation of three colleges of education (St. Patrick's College, Drumcondra, Mater Dei Institute of Education and the Church of Ireland College of Education) into DCU. This placed a significant additional workload on DCU's finance department.

3.11 Timeliness of production of audited financial statements for each university for 2013/2014, 2014/2015 and 2015/2016 is summarised in Figure 3.3.

Figure 3.3 Timeliness of university audits 2013/2014 to 2015/2016 as at 31 May 2018

There has been a significant improvement in the timeliness of production of audited financial statements for universities….



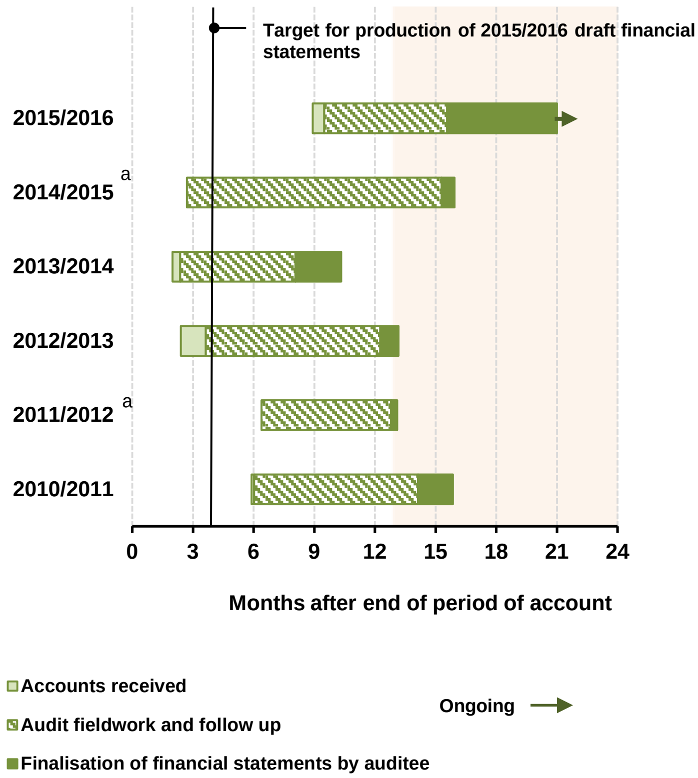
Source: Office of the Comptroller and Auditor General

Dundalk Institute of Technology

3.12 The financial statements of Dundalk Institute of Technology were not certified at the end of 2017 which is a disimprovement relative to previous years. The Institute did not provide a complete set of draft 2015/2016 financial statements for audit until September 2017. Audit review was completed in December 2017. The delay since then is due to a proposed revised accounting treatment for deferred income. The Institute presented a final set of financial statements approved (but not yet signed) by the Governing Body on 8 June 2018.

Figure 3.4 Dundalk Institute of Technology audits, 2010/2011 to 2015/2016

Dundalk Institute of Technology took longer to produce audited financial statements for 2015/2016 than earlier years....



Source: Office of the Comptroller and Auditor General

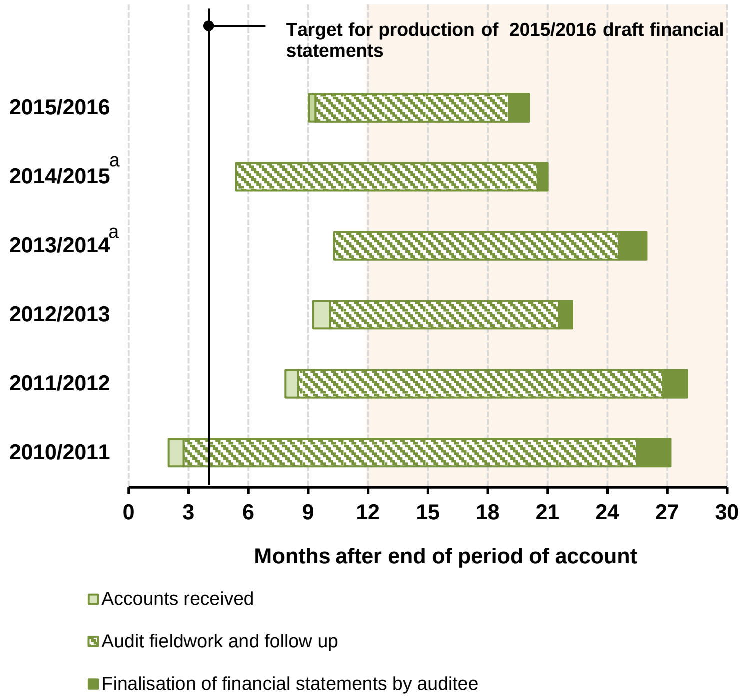
Note: a Audit fieldwork commenced as soon as draft accounts were received.

Waterford Institute of Technology

3.13 Production of audited financial statements in Waterford Institute of Technology (WIT) has been protracted for a number of years for a variety of reasons, including accounting adjustments, issues in relation to subsidiary companies and research spin outs. This has resulted in knock-on effects on succeeding years' audits. In response to issues raised during the audit of the 2015/2016 financial statements, the Institute agreed in December 2017 to make a significant accounting adjustment. Those financial statements were certified on 4 May 2018.

Figure 3.5 Waterford Institute of Technology 2010/2011 to 2015/2016 audits

Waterford Institute of Technology continued to have difficulty in producing audited financial statements in a timely way ….



Source: Office of the Comptroller and Auditor General

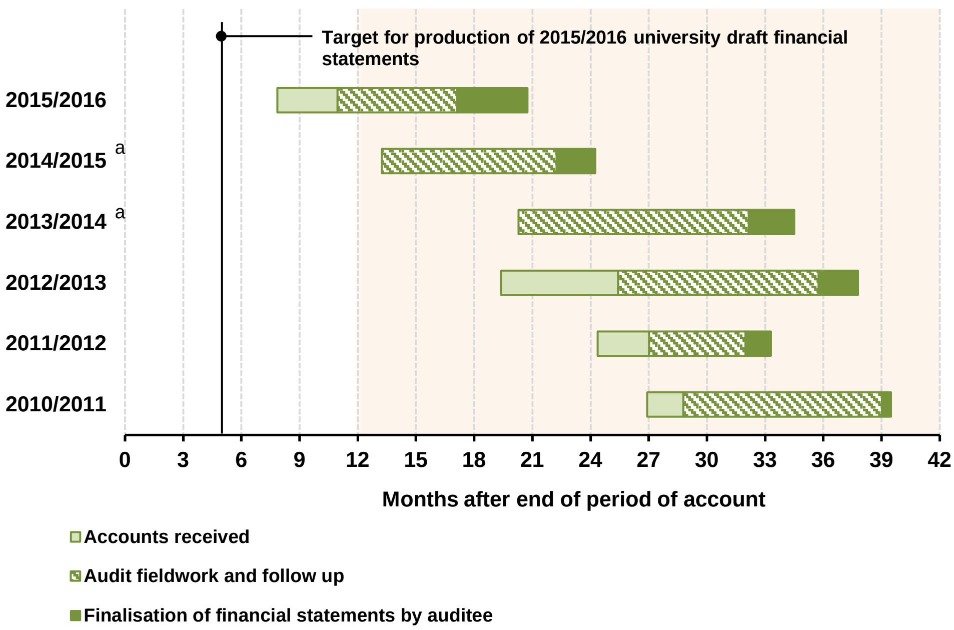
Note: a Audit fieldwork commenced as soon as the draft accounts were received.

National College of Art and Design

3.14 While there have been persistent delays over many years in finalising the financial statements for the National College of Art and Design (see Figure 3.6), steady progress has been made in recovering a very poor position. The 2014/2015 financial statements were certified in October 2017, and the 2015/2016 financial statements were certified in in June 2018.[1]

Figure 3.6 National College of Art and Design 2010/2011 to 2015/2016 audits

The National College of Art and Design has made significant progress in producing audited financial statements but they are still in arrears….



Source: Office of the Comptroller and Auditor General
Note: a Audit fieldwork commenced as soon as draft accounts were received.

Views of the Higher Education Authority

3.15 The Higher Education Authority (HEA) has stated that it is further embedding timeliness and other governance issues with its approach to funding institutions. One of the recommendations in the *Review of the Allocation Model for Funding Higher Education Institutions* (January 2018) is that a penalty system for serious breaches of governance should be introduced. In early 2018, a group was established to oversee the implementation of the recommendations of the report. A number of key recommendations prioritised for 2018 including the penalty systems are currently being finalised for approval by the HEA and the Minister for Education and Skills. The HEA has stated that it continues to stress to institutions the importance of prioritising the completion of accounts. The importance of timely submission of accounts for audit, adequate resourcing and progression of follow up audit queries, and timely submission of audited financial statements to the Department are all emphasised in the annual grant allocation letter.

1 The College prepares its financial statements on the university academic cycle i.e. 1 October to 30 September.

Other accounts in arrears

3.16 Excluding ETBs and higher education bodies, there were three accounts in arrears at the end of 2017.

3.17 Finalisation of the audit of the 2016 financial statements for the National Treatment Purchase Fund (NTPF) was delayed because of

- delay in the provision of an analysis of care expenditure under the waiting list initiative
- the need to review procurement arrangements arising from the waiting list initiative and to clarify the respective roles of the NTPF and the HSE.

3.18 Following audit, the financial statements were cleared for signing in mid December 2017 but the NTPF was not in a position to submit signed financial statements until the following month. The financial statements were certified in January 2018.

3.19 Delays were encountered in obtaining information and responses from the Residential Institutions Statutory Fund Board (Caranua) in relation to

- Ongoing control weaknesses over grant payments and the adequacy of the related disclosures in the statement of internal control.
- The recognition of pension liabilities in the financial statements and Caranua's engagement with the Department of Education and Skills in that regard. In April 2018, that Department received confirmation from the Department of Public Expenditure and Reform that the pension liabilities will be paid from funds provided by the Oireachtas.

The financial statements were certified in May 2018.

3.20 The Educational Research Centre (ERC) – which was formerly a self-contained unit within St Patrick's College of Education – was established as a statutory body in 2015, in order to give it effective legal and governance structures. The audit of its first accounting period (15 months to end December 2016) raised a number of significant issues. ERC sought clarification on matters related to accounting for pensions from the Department of Education and Skills. Revised financial statements had not been submitted by end 2017.

Conclusion

3.21 Delays in completion of audits can occur for a variety of reasons, and may result in development of audit arrears. When this happens, there are knock on effects, and it usually takes time to recover lost ground.

3.22 There were systemic delays in certain sectors. These are being addressed in a co-operative way with the bodies concerned and their oversight bodies, and progress is being made. As a result, the number of accounts in arrears at the year end was almost halved in 2017 compared to end 2015.

4 Audit reports

4.1 The audit report on the financial statements of each body sets out the Comptroller and Auditor General's opinion on those statements. Depending on the accounting framework adopted by the body, that opinion will state whether (or not)

- the financial statements give a true and fair view of the assets, liabilities and financial position of the entity at the financial year end, and of its income and expenditure for the year, or
- whether the financial statements properly present the entity's transactions or balances in accordance with the relevant accounting framework.

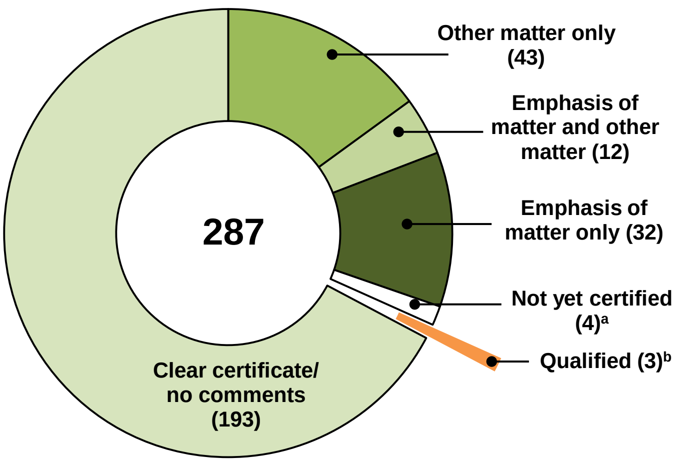
4.2 In forming the audit opinion, a conclusion is reached as to whether the audit obtained reasonable assurance that the financial statements are free from material misstatement.

4.3 In addition to the audit opinion, the audit report may draw attention to matters that assist users in understanding the financial statements (known as 'emphasis of matter'), and/or other matters, reported on by exception, which are considered significant enough to bring to the attention of the Oireachtas.

4.4 The 2016 financial statements of 193 bodies received a clear audit report, with no matter drawn to attention (see Figure 4.1).

Figure 4.1 Audit reports — 2016 financial statements

Most financial statements received a clear audit opinion….



Source: Office of the Comptroller and Auditor General

Notes:
a At the date of finalisation of this report, there were four sets of financial statements for periods of account ending in 2016 not yet certified.
b One of the qualified audit reports also included an emphasis of matter paragraph and a matter reported by exception.

Qualified audit opinions

4.5 Three financial statements for periods of account ending in 2016 received a qualified audit opinion. In each case, the audit opinion on the 2015 financial statements included a qualification on the same basis.

- National Tourism Development Authority — deferred funding asset for one of three statutory pension schemes not recognised.
- University College Cork — disagreement on the accounting treatment of future pension funding for liabilities arising from transferred-in service in one of three pension schemes. The 2016 financial statements note that the University and the Higher Education Authority reached an agreement, in October 2017, on the arrangements to fund this liability.
- National Gallery — heritage assets are not accounted for in accordance with generally accepted accounting practice.

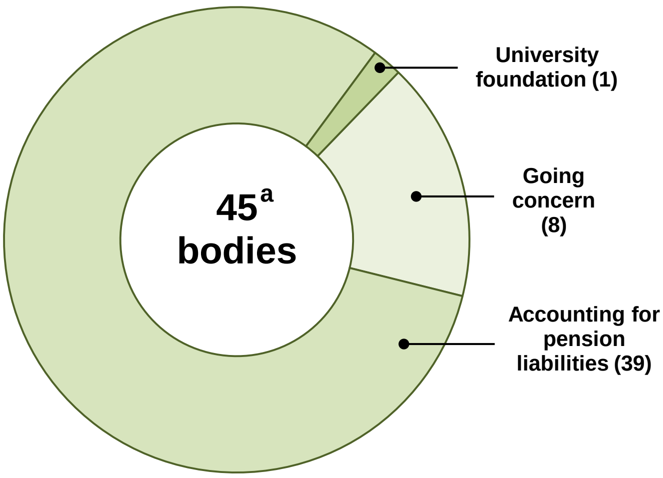
Emphasis of matter

4.6 An 'emphasis of matter' paragraph may be included in the audit report to draw attention to a matter which is considered to be important in understanding the financial statements.

4.7 Emphasis of matter paragraphs were included in the audit reports for 45 bodies. Figure 4.2 summarises the types of issues raised. As there can be more than one matter included in some cases, a total of 48 matters were reported.

Figure 4.2 Issues in emphasis of matter paragraphs, 2016 audit reports

A significant number of public bodies that produce accrual accounts do not account for pension liabilities in the standard way ….



Source: Office of the Comptroller and Auditor General

Notes: a The audit reports for some bodies included more than one matter.

Accounting for pensions

4.8 Under the accrual accounting system, a liability is recognised on the balance sheet as staff earn pension entitlements. Bodies that receive the bulk of their funding from the State recognise the funding that will be provided in the future to pay pensions as an asset which matches their future pensions liability.

4.9 The situation is more complex for State bodies that generate significant levels of income from their activities which could be used to fund pension payments. They generally recognise a pension funding asset on the assumption that income generated by the body will be used in the first instance to cover current expenses and that State funding will be provided to meet any shortfall in resources to fund future pensions. An emphasis of matter drawing attention to this was included in 15 sets of financial statements, 12 of which are in the higher education sector where bodies raise income through fees and charges.

4.10 The matter of pension liabilities was also reported for ten health sector bodies. Those bodies account for pensions as payments are made, as directed by the Minister for Health. This does not comply with generally accepted accounting practice.

4.11 The 2015/2016 audit reports for the institutes of technology draw attention to the fact that the financial statements do not recognise the cost of future pension benefits that have accrued to pension scheme members. The institutes have indicated that they will commence accounting for pension liabilities in their 2016/2017 financial statements.

4.12 The final pensions matter reported relates to pensions liabilities not accounted for by the Financial Services Ombudsman's Bureau as it has not yet been determined where the liabilities will be borne.

4.13 The Department of Public Expenditure and Reform established a working group in 2017 to review the accounting treatment of pensions in the public sector, in particular in the health, education and local government sectors.[1] That Department has indicated that a report of the working group is being drafted.

Going concern

4.14 Financial statements are normally prepared on the basis that the body will continue in operation. This is referred to as the 'going concern' basis.

4.15 Under accounting standards, a body is required to make an assessment of its ability to continue as a going concern. Where there are matters that cast significant doubt on a body's ability to continue in operation, for example, where there are significant liabilities, the financial statements should disclose those matters and the basis on which it is considered appropriate to prepare the financial statements on a going concern basis. Where a body is not expected to continue in operation, the financial statements disclose that fact and the body considers whether there is any implication for the classification or carrying value of its assets and liabilities.

4.16 An emphasis of matter paragraph is included in the audit report where going concern issues are disclosed in the financial statements. This was the case for eight bodies (see Figure 4.3).

1 The working group comprises representatives of the Departments of Public Expenditure and Reform, Health, Education and Skills, and Housing, Planning, Community and Local Government, and the Office of the Comptroller and Auditor General.

Figure 4.3 Going concern issues referred to in 2016 audit reports

Body	Matter referred to in audit report
Galway Mayo Institute of Technology **Institute of Technology Tralee** **Waterford Institute of Technology**	Attention drawn to the deficit incurred for a number years, the accumulated deficit and the disclosure of the basis on which the Governing Body is satisfied that the Institute remains a going concern.
Bord na gCon group	Arising from a high level of borrowings, the audit report draws attention to the fact that the Board considers the going concern basis to be appropriate based on the proceeds of the disposal of the group's Harold's Cross site being sufficient to retire fixed term bank debt, the renewal of its overdraft facilities, ongoing State funding and increases in profit from racing facilities.
Dublin Greyhound and Sports Association Limited (a subsidiary of Bord na gCon)	Attention is drawn to the fact that the company has ceased trading and the financial statements have been prepared on a non-going concern basis.
NAMA subsidiaries: National Asset Loan Management DAC National Asset Property Management DAC National Asset Residential Property Services DAC	Attention is drawn in each case to the net deficit position and the disclosure of the basis on which the directors are satisfied to prepare the financial statements on the going concern basis.

Source: Office of the Comptroller and Auditor General

University foundation

4.17 The audit report for University College Cork for 2015/2016 draws attention to the fact that the financial statements of Cork University Foundation DAC have not been consolidated with those of the University group. The University has indicated that it will in future publish the financial statements of the Foundation with those of the University.

Matters reported by exception

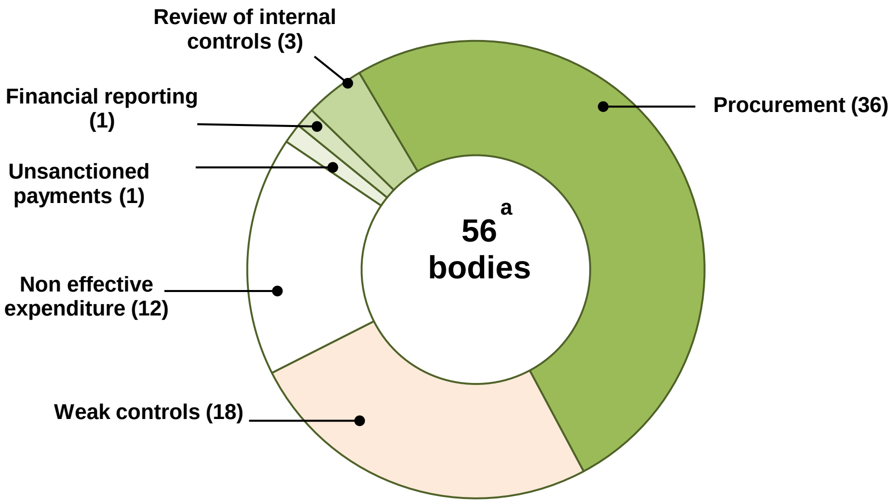
4.18 Certain matters which are considered to be of sufficient importance to draw to the attention of the Oireachtas, are included in audit reports on an exception basis. Matters to be reported generally arise where

- the audit identified material irregular transactions i.e. where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the audited body's annual report (if published with the financial statements) is not consistent with the related financial statements or with the knowledge acquired in the course of performing the audit, or
- the statement on internal control does not reflect the audited body's compliance with the governance arrangements set out in its code of governance practice, or
- the audit finds other material matters relating to the manner in which public business has been conducted, or
- all of the information and explanations required for the audit have not been received.

4.19 The audit reports for 56 bodies made reference to such matters. Figure 4.4 sets out the types of matters reported — 71 matters were reported.

Figure 4.4 Matters reported by exception, 2016 audit reports

Cases where public bodies procured goods and services without a competitive process continued to occur….



Source: Office of the Comptroller and Auditor General

Notes: a The audit reports for some bodies included more than one matter.

4.20 The matters reported related to

- ***Procurement issues*** — generally where a material level (€500,000 or more) of procurement of goods and services without appropriate competitive processes was identified.
- ***Non-effective expenditure*** — a material level of irregular or non-effective expenditure was identified. This included cases where the business purpose of the expenditure was unclear, payments for which no value was achieved (such as onerous leases or frauds) or instances of losses.
- ***Review of internal controls*** — the required review of the effectiveness of the system of internal controls has not been carried out or has not been done in a timely manner.
- ***Weak controls*** — identified weaknesses in controls over transactions or assets.
- ***Unsanctioned payments* —** payments where the appropriate approval or sanction has not been obtained, including employment contracts.
- ***Financial reporting* —** delays in the finalisation of the financial statements.

Conclusions

4.21 In most cases (99%), the financial statements in respect of 2016 activities presented to the Oireachtas by public bodies received an unqualified audit opinion.

4.22 Emphasis of matter paragraphs are included in audit reports to assist users of the financial statements. Most of the matters reported related to accounting for pensions. Pensions accounting practice in the public sector is diverse, reflecting different requirements for different classes of public body. Work is underway to review and rationalise the approach.

4.23 Certain other matters are brought to attention in audit reports on an exception basis. The matters reported mainly relate to the effective use of public funds and issues around governance and controls. Most issues arise from a material level of procurement without appropriate competitive processes.

Appendices

Appendix A

Targets for production and audit of financial statements

Time targets for the submission of financial statements for audit and for the publication of audited financial statements vary between different categories of body. Targets may be specified in legislation, implicit from governance codes or there may be no targets.

Targets for the production of financial statements for audit and for presentation of audited financial statements are set in the Comptroller and Auditor General (Amendment) Act 1993 for the appropriation accounts and the finance accounts.

Provision in the Universities Act 1997 and the Institute of Technology Acts 1992 and 2006 allow the Comptroller and Auditor General to specify dates for submission of financial statements for audit.

For bodies covered by the Code of Practice for the Governance of State Bodies, there is an implicit target for submission of financial statements for audit and a target for the publication of audited financial statements. Some bodies covered by the Code have separate statutory target dates for submission of financial statements for audit.

Figure A.1 Targets set, by category of public body

Category	Source of target	Target for production of draft financial statements (months after end of period of account)	Target for publication of audited financial statements (months after end of period of account)
Finance accounts	C&AG (Amendment) Act 1993	6 months	9 months
Appropriation accounts	C&AG (Amendment) Act 1993	3 months	9 months
Departmental funds	Various	Various (and in some cases, none)	Various (and in some cases, none)
State bodies	Code of Practice for the Governance of State Bodies (2016)	2 months[a]	6 months
Universities	Universities Act 1997 and C&AG 2015 order	5 months (reducing to 4 months for 2016/17)	None[b]
Institutes of technology	Institutes of Technology Acts 1992 to 2006 and C&AG 2015 order	4 months (reducing to 3 months for 2016/17)	None[b]
Education and training boards	Education and Training Board Act 2013	3 months	None[b]

Source: Office of the Comptroller and Auditor General

Notes: a Some State bodies have separate statutory target dates for submission of accounts for audit. Such targets range from between two and six months after the end of the accounting period.

b Financial statements should be presented to the Houses of the Oireachtas 3-4 months after audit completion (see chapter 2).

Appendix B

Figure B.1 Factors giving rise to audit completion delays

Highly peaked demand

- Most public sector bodies prepare their accounts on a calendar year basis i.e. with a December year end.
- Many key (larger) audits are prioritised for completion by the end of June. This impacts on the audit of smaller public bodies.

Audited body capacity

- Resource problems in audited bodies such as reduced staff in key finance functions, over-reliance on inexperienced or unqualified staff and major changes in systems can all have an effect on auditee capacity.
- The establishment or dissolution of bodies can also contribute to capacity issues.
- These factors can cause delays in accounts production, in processing adjustments arising from significant accounting misstatements or errors identified, or in resolving problems with the format of the accounts.

Provision of explanations

- Audit fieldwork and finalisation will almost always necessitate explanations and further supporting evidence. Delays in the provision of these explanations causes delay in audit completion.

Client resistance to proposed amendments or disclosures

- To enhance accountability and transparency, audits often identify the need for enhanced disclosures in the financial statements or in the statement on internal control.
- Delays can occur when audited bodies resist such amendments, or simply as a result of the time taken in drafting and agreeing the required disclosures.

Consideration of exception reports in the audit certificate

- When complex matters arise during the course of an audit, consideration by the C&AG of how to deal with the matter is necessary including provision of further explanations and evidence. The audit may need to be 'kept open' while explanations are sought.

Knock-on effects of delays

- Delays in the completion of an audit have a direct knock-on effect on the completion of the audit of that body for the subsequent period. In addition, resolving matters long after the end of the accounting period is more resource intensive.
- Arrears of audits also have indirect effects such as the disruption of planned work on other audits.

C&AG resource issues

- High staff turnover and the loss of key audit personnel can lead to delays in audit completion.

Source: Office of the Comptroller and Auditor General