



**Comptroller and Auditor General
Special Report**

Public Sector Financial Reporting for 2015

Report of the Comptroller and Auditor General

Public Sector Financial Reporting for 2015

I have carried out a review of financial reporting by public bodies in respect of periods of account ending in 2015. 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
Comptroller and Auditor General

5 October 2017

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Summary

Summary

Public sector bodies manage substantial public funds. For the 2015 year of account, the Comptroller and Auditor General was responsible for the audit of the annual financial statements of 292 public bodies and funds with an aggregate turnover of €213 billion. The audit of those financial statements and their timely presentation to the Oireachtas are necessary to ensure public accountability and effective oversight.

This report reviews the timeliness of public sector financial reporting and focuses mainly on financial statements for periods ending in 2015. 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 2015.

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 but one of the 2015 appropriation accounts were produced within the required three months. For other bodies, only 40% produced draft financial statements for audit within three months of the end of their accounting period. However, this was, on average, a small improvement on the previous year.

The audits of two thirds of 2015 financial statements had been completed by the end of September 2016. These accounted for 96% of the value of turnover audited.

Presentation of accounts to the Oireachtas

There has been a significant improvement in the timeliness of presentation of audited financial statements to the Oireachtas. They are generally required to be presented to the Oireachtas within three months of audit certification. Just over 70% of 2015 financial statements were presented on time compared to less than 60% for 2014.

Accounts in arrears

At the end of 2016, there were 16 sets of financial statements for 2015 or earlier periods that had not been certified.

Six of these were accounts of education and training boards. That sector underwent significant organisational change from 2013 and this continues to be a contributory factor to the delays. Audited financial statements for 2015 had not been produced by four education and training boards by the end of August 2017.

The university sector, which previously had a high incidence of accounts in arrears, has shown improvement. At the end of 2016, three accounts for the 2014/2015 year of account had not been certified. These have since been certified.

Matters referred to audit reports

Most 2015 financial statements received a clear audit opinion — just three of those certified to date were qualified.

In the audit reports issued to date for 2015 financial statements, 44 matters were highlighted by way of ‘emphasis of matter’ paragraphs. These are brought to attention to help users’ understanding of the information in the financial statements. In most cases, the issues raised repeat from year to year because they are outside the control of the body concerned or are unlikely to be resolved in the short term. Matters reported include instances where public bodies that produce accrual accounts do not account for pension liabilities in the standard way. This occurs for a significant number of such bodies.

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 the use of public funds or governance and control issues. There were 56 such matters identified in the audit reports issued to date for 2015. Cases where public bodies procured goods and services without a competitive process continued to occur.

Public Sector Financial Reporting for 2015

1 Introduction

- 1.1 For the 2015 year of account, the Comptroller and Auditor General was responsible for the audit of the annual financial statements of almost 300 public bodies and funds in the central government sector.¹ These include government departments, departmental funds and a range of semi state bodies (Figure 1.1).

Figure 1.1 Public bodies audited by the Comptroller and Auditor General

Category	Number of entities	2015 turnover ^a £billion
Central government		
▪ Finance accounts	1	49.8
▪ Appropriation accounts ^b	39	44.5
▪ Departmental funds	28	74.9
Semi-state agencies	146	22.1
HSE and health agencies	29	16.4
Third level education bodies	26	2.9
Education and training boards	16	2.3
North/South bodies	7	0.2
Total	292	213.1

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.
b Excludes the appropriation account of the Office of the Comptroller and Auditor General (Vote 8).

- 1.2 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. 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 proper accountability is more difficult to achieve.

- 1.3 This report focuses primarily on the timeliness of public sector financial reporting for periods of account ending in 2015 (Chapter 2).² 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 Includes periods of account ending at any date during 2015. Most public bodies account on a calendar year basis. Some bodies (especially in the education sector) account on a 12-month cycle that does not coincide with a calendar year.

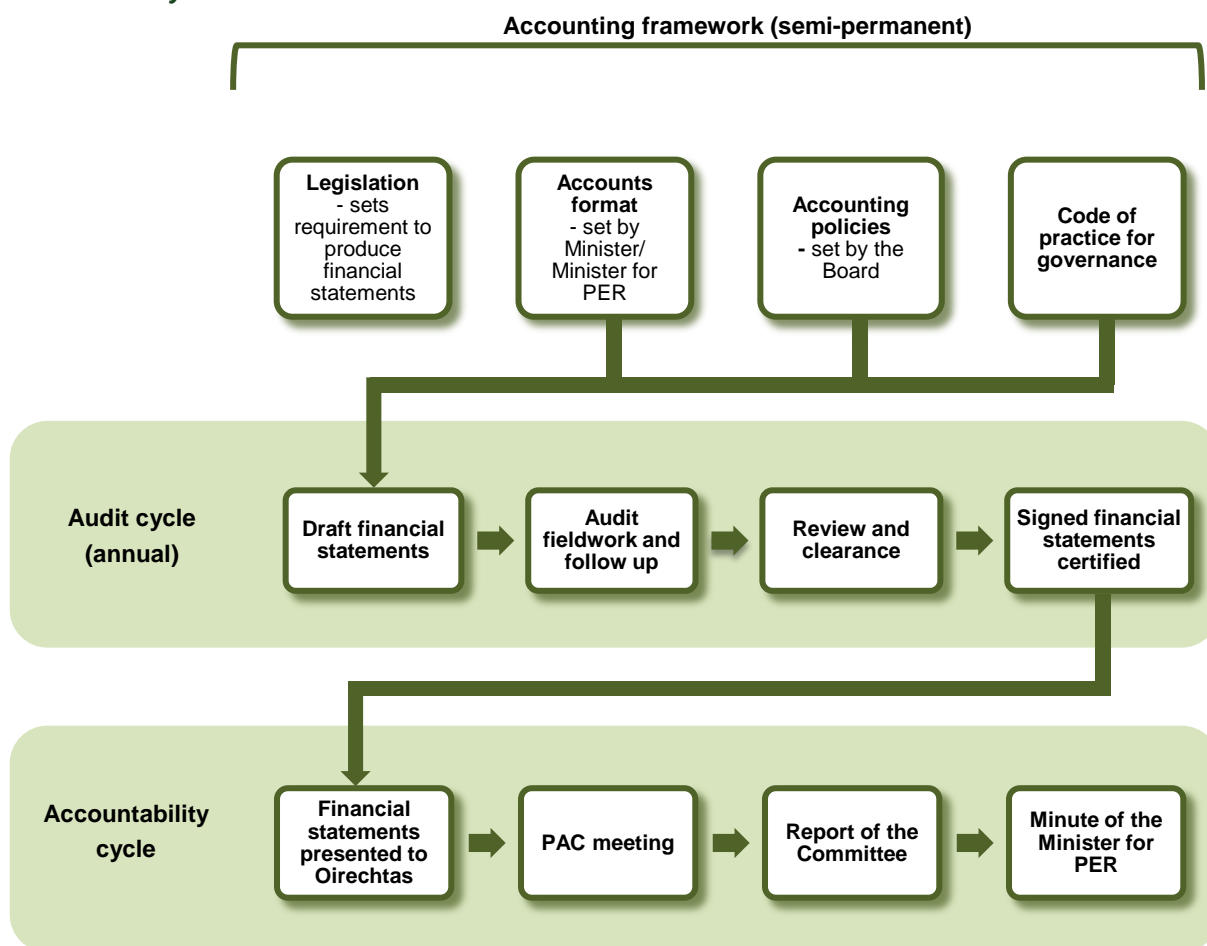
2 A similar report, Special Report 95, *Financial Reporting in the Public Sector*, November 2016, focused on financial statements for periods ending in 2014.

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...

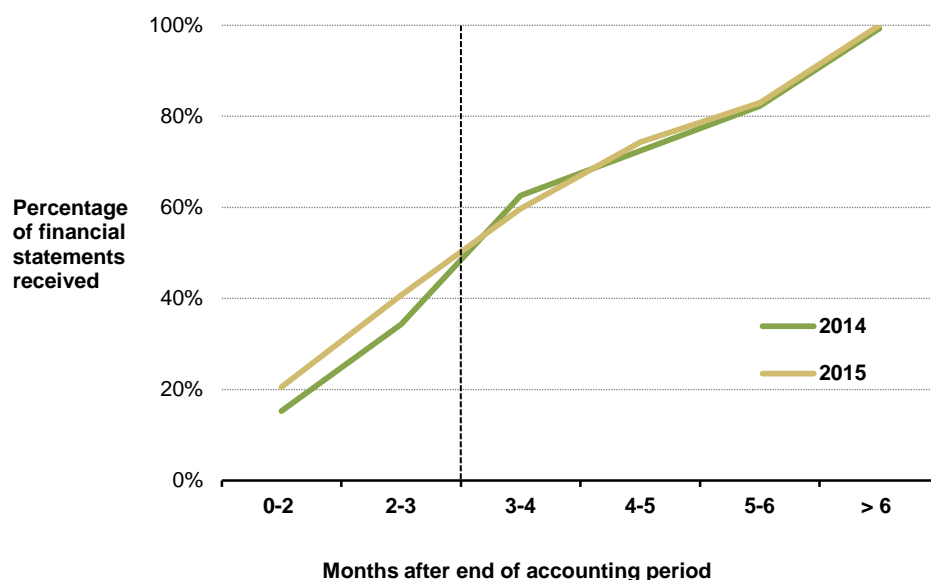


Production of financial statements for audit

- 2.3** 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.
- 2.4** 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. For some bodies, targets have been specified in legislation. For others, targets arise from standards set out in codes of governance practice. For some bodies, no targets exist. Appendix A summarises the current requirements for each category of public body.
- 2.5** For most bodies, financial statements should be presented for audit within two to three months of the end of the accounting period. For 2015, all but one appropriation account was produced within the required time frame — the account for the Irish Human Rights and Equality Commission was submitted one month after the required date. For other bodies, there has been some improvement in the timeliness of production of 2015 financial statements for audit (Figure 2.2). Around 40% of those bodies submitted their 2015 financial statements for audit within three months of the end of their accounting period. This compares with about a third of bodies for 2014.

Figure 2.2 Comparison of production of 2014 and 2015 financial statements for audit (other than departmental appropriation accounts)

Draft financial statements for 2015 were, on average, presented for audit a little earlier than those for 2014...

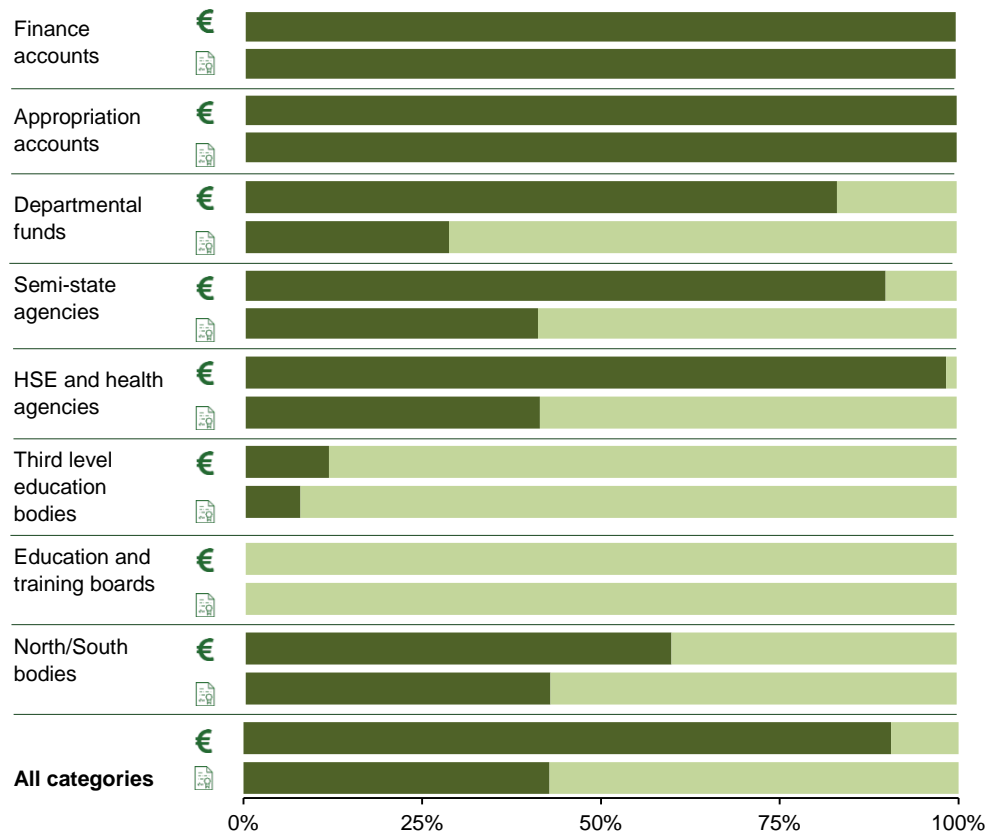


Audit completion

- 2.6** Timeliness of audit completion is measured on the basis of the level of turnover (generally measured on the basis of gross expenditure) and on the number of audits. The level of compliance with completion targets for the audits of 2015 financial statements for each category of body is shown in Figure 2.3. 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. Overall, audits accounting for 91% of the total turnover subject to audit were completed on time. This represented 43% of the number of audits.

Figure 2.3 Compliance with audit completion targets, 2015 audits (number and value)

Third level education bodies and education and training boards were the slowest in producing audited financial statements...



Source: Office of the Comptroller and Auditor General

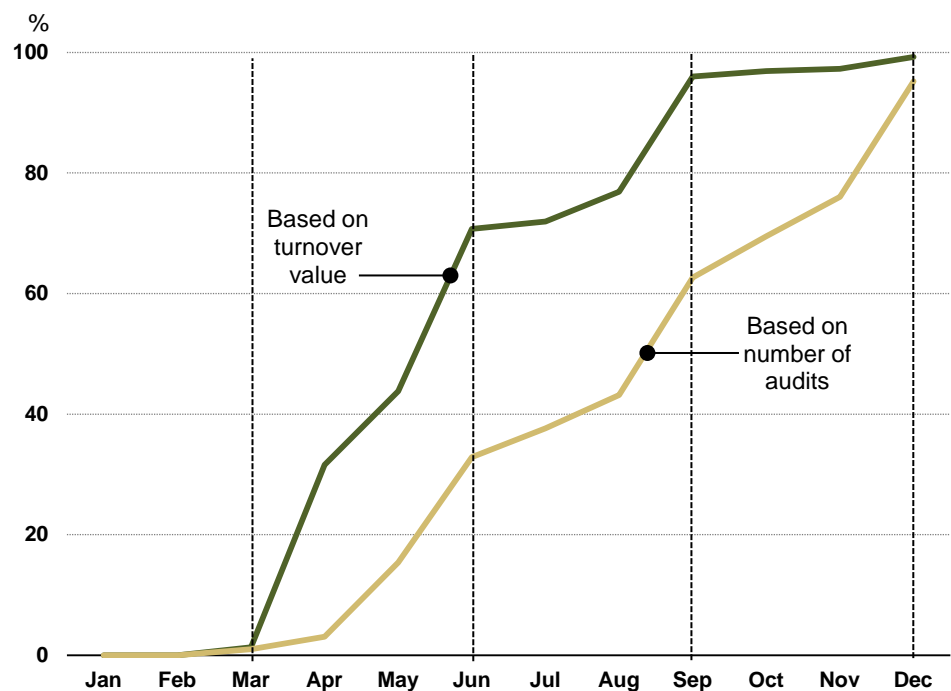
Note:

- Compliant
- Non-compliant
- € Value of accounts
- 📄 Number of accounts

- 2.7** The profile of audit completion in 2016 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 2016, almost two thirds of audits had been completed, but this represented 96% of value of the turnover audited.
- 2.8** At the end of 2016, 95% of audits were completed representing 99% of the total turnover.¹

Figure 2.4 Audit completion profile 2016 (2015 year of account)

In general, bodies and funds with high turnover value had audited financial statements earlier than smaller bodies and funds...



¹ This refers to 2015 accounts. In addition, 23 accounts, relating to prior years (2013 and 2014), all in arrears at the end of 2015, were certified in 2016.

Source: Office of the Comptroller and Auditor General

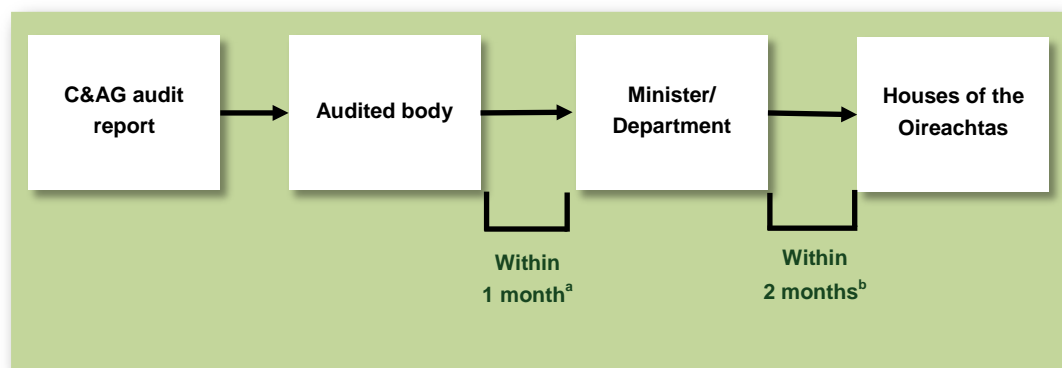
Presentation of Accounts to the Oireachtas

- 2.9** 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.
- 2.10** 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.
- 2.11** The Comptroller and Auditor General is responsible for the presentation of the appropriation accounts of Government departments and offices. Responsibility for the presentation of audited financial statements of all other bodies rests with the relevant parent department.

Timeliness of presentation

- 2.12** 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.¹

Figure 2.5 Timelines for presentation of audited financial statements



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

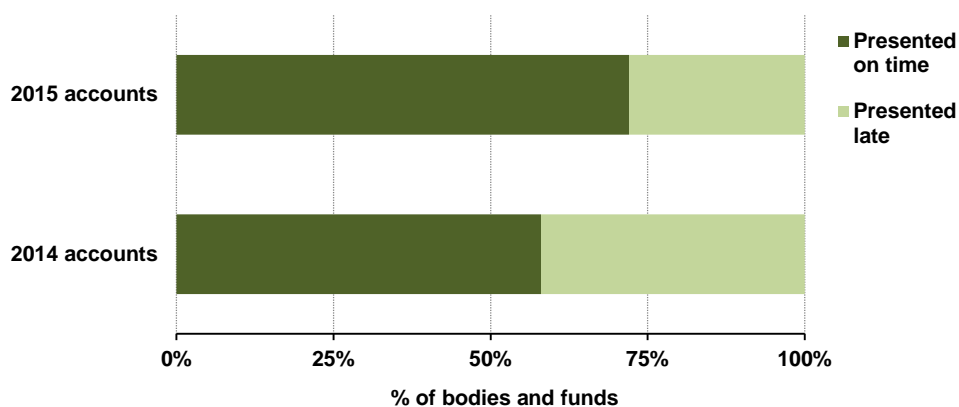
Source: Department of Public Expenditure and Reform Circular 7/2015

- 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.

- 2.13** The timeliness of presentation of 2014 and 2015 financial statements is shown in Figure 2.6. There has been an improvement in the number of accounts presented on time with just over 70% of 2015 accounts presented on time compared to less than 60% of 2014 accounts.

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

There was a significant improvement in the timeliness of presentation of 2015 financial statements to Dáil Éireann...



Source: Analysis by Office of the Comptroller and Auditor General

- Notes:
- a Timeliness of presentation is shown for all 2014 accounts that were certified in 2015 and for all 2015 accounts that were certified in 2016.
 - b Appropriations accounts are not included as departments are not responsible for their presentation. All appropriation accounts for 2014 and 2015 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.

Conclusion

- 2.14** For accounting periods ending in 2015, the 292 public bodies subject to audit accounted for turnover of €213 billion. By the end of 2016, financial statements accounting for over 99% of turnover had been certified. At that point, the 2015 financial statements of 14 bodies had not been certified. The timeliness of audit completion for 2015 financial statements varied significantly between sectors — ranging from full compliance for appropriation accounts to zero compliance for education and training boards.
- 2.15** Late submissions of draft financial statements for audit leads to delays in audit completion and can have a 'knock-on' effect for other audits scheduled. All but one Government department submitted their appropriation accounts on time i.e. within three months of the end of the year of account. For other bodies, there has been some improvement in the timeliness of submission of financial statements for audit. Nevertheless, only 40% of bodies submitted their 2015 financial statement for audit within three months of the end of their accounting period.

- 2.16** To support the public accountability process, the audited financial statements of State bodies should be presented to the Oireachtas promptly and at least within the timeframes specified. Analysis conducted during this examination indicates that there has been an improvement in the timeliness of presentation.
- 2.17** Currently, there is no system in place to verify that audited financial statements have been presented to the Oireachtas. The Department of Public Expenditure and Reform is considering the feasibility of requiring departments to include, by way of an annex to their appropriation accounts, a report on the presentation to the Houses of the Oireachtas of financial statements of funds and bodies 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 can give rise to delays are summarised in Figure 3.1.

Figure 3.1 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 usually 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 financial 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 cannot be concluded while explanations are outstanding.

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.

- 3.2 At the end of 2016, there were 16 accounts in arrears including two for periods of accounts ending in 2014 (Figure 3.2).

Figure 3.2 Accounts in arrears at year end 2016

A small number of bodies did not have audited financial statements for the 2015 year of account (or earlier) by the end of 2016...

Type/name of body

Education and Training Boards	
Kildare and Wicklow	2015
Limerick and Clare	2015
Louth and Meath	2015
Mayo, Sligo and Leitrim	2013/2014 and 2015
Waterford and Wexford	2015
Higher education bodies	
Dublin City University	2014/2015
University College Cork	2014/2015
National University of Ireland, Galway	2014/2015
Dublin Institute of Technology	2014/2015
Waterford Institute of Technology	2014/2015
National College of Art and Design	2013/2014 and 2014/2015
Other bodies	
Fishery Harbour Centres	2015
Bord na gCon - Retired Greyhound Trust	2015
Pre-Hospital Emergency Care Council	2015

Source: Office of the Comptroller and Auditor General

Education and training boards

3.3 The 2015 financial statements of five of the 16 education and training boards (ETBs) were in arrears at the end of 2016. In each case, their financial statements for the previous period of account were also in arrears at the end of 2015. In one case — Mayo, Sligo and Leitrim ETB — both the 2013/2014 and 2015 financial statements were in arrears at the end of 2016. The issues that gave rise to the delays in the 2013/2014 financial statements were previously reported on.¹ Figure 3.3 summarises the progress on the audits of the ETBs for 2015.

3.4 For two of the ETBs where the 2015 financial statements are not yet certified, the delay in completing the audits is due to difficulties experienced by the ETB in producing financial statements and servicing the audit

- Limerick and Clare ETB produced draft financial statements for 2015 only in May 2017, and audit fieldwork commenced shortly thereafter
- Mayo, Sligo and Leitrim ETB submitted draft financial statements for 2013/2014 in June 2017 and for 2015 in July 2017.

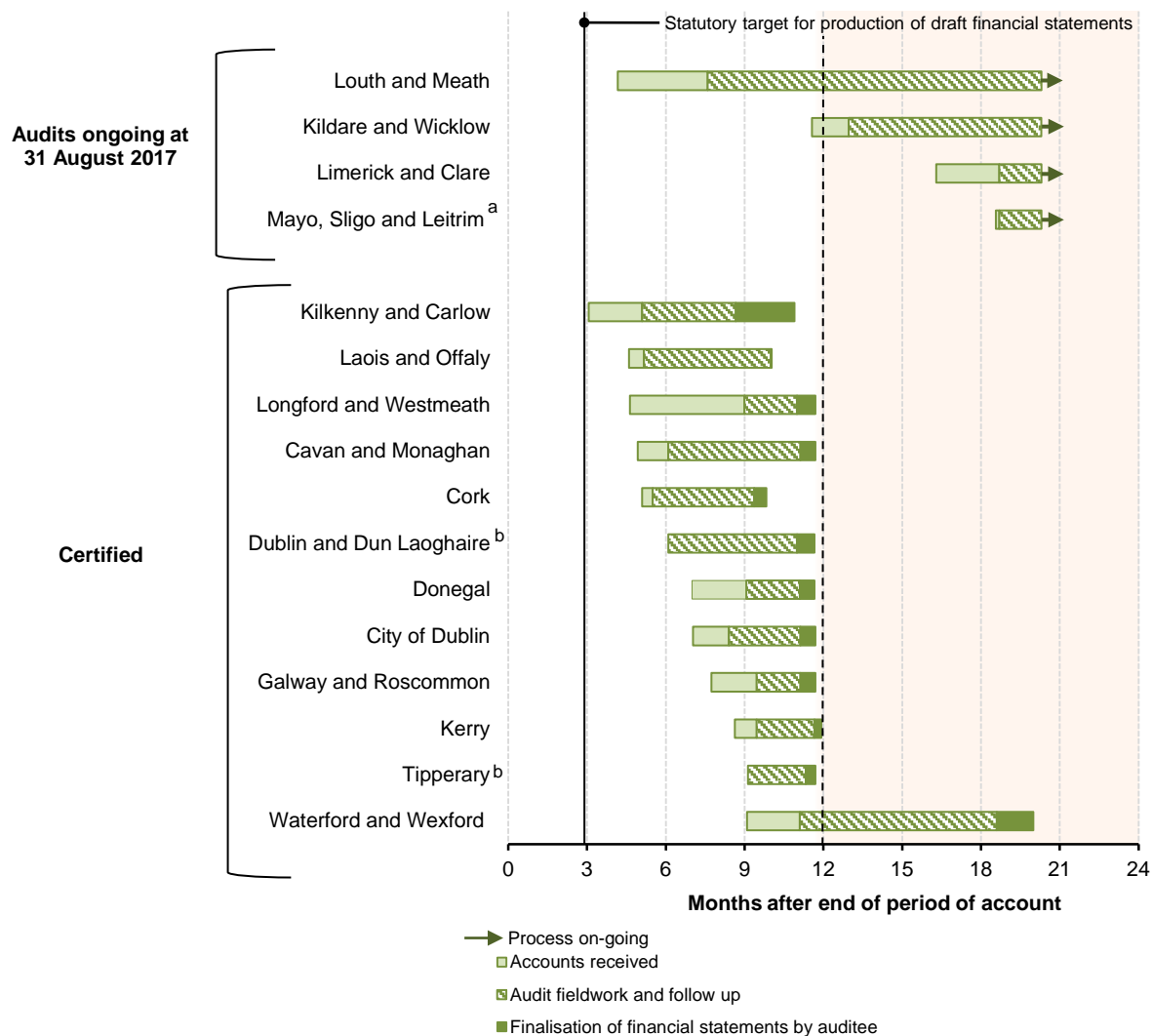
In the case of Louth and Meath ETB, specific issues have arisen during the audit which the ETB is seeking to resolve to enable the audit to be finalised.

3.5 Arising from the audit of the 2015 financial statements for Kildare and Wicklow ETB, a number of issues were brought to the attention of the ETB and the Department of Education and Skills in July 2017. On 4 October 2017, the Department appointed a statutory investigator to examine specific matters in the ETB. These matters have a direct relevance to the audit and its completion.

¹ Special Report 95, *Financial Reporting in the Public Sector*, November 2016.

Figure 3.3 Education and Training Boards 2015 audits, progress at 31 August 2017

Four ETBs did not have audited financial statements for 2015 by the end of August 2017...



Source: Office of the Comptroller and Auditor General

Notes: a The Mayo, Sligo and Leitrim ETB accounts for 2013/ 2014 are also in arrears.

b Audit fieldwork commenced as soon as draft accounts were received.

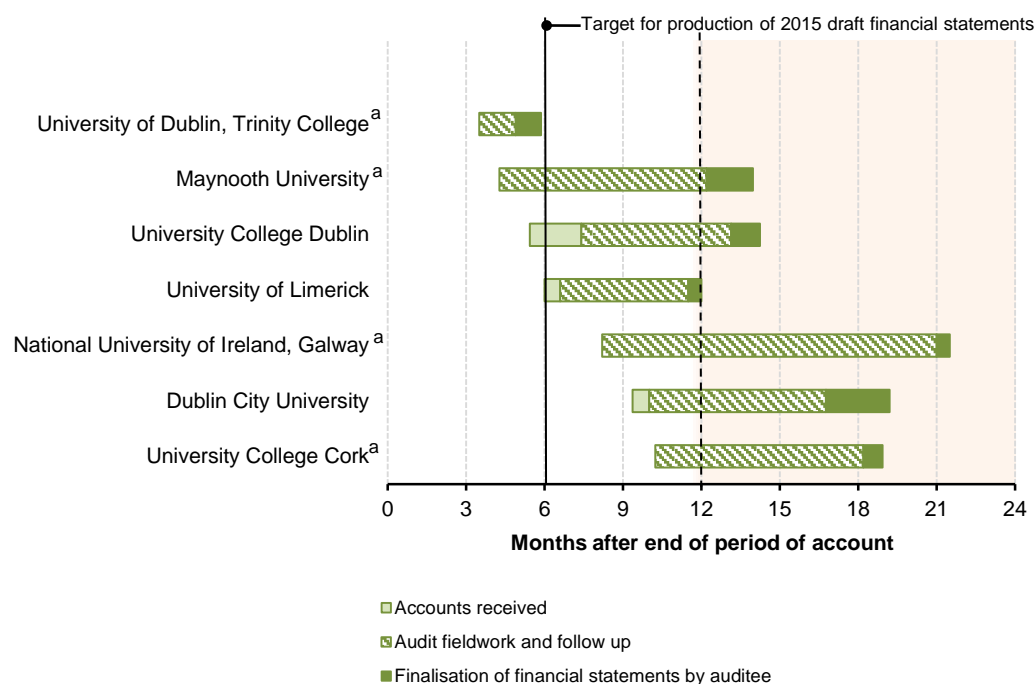
Higher education bodies

Universities

- 3.6** Special Report 95 identified a number of factors that contributed to recurring delays in the finalisation of audits of universities. There has since been a significant decrease in the number of financial statements of universities in arrears. At the end of 2015, six sets of financial statements for four universities were in arrears. The position at the end of 2016 was that the 2014/2015 financial statements for three universities were in arrears. Two of these (Dublin City University and University College Cork) were certified in April 2017. The 2014/2015 financial statements of the National University of Ireland, Galway were certified in July 2017 (Figure 3.4).

Figure 3.4 Universities 2014/2015 audits

Unlike other universities, TCD had audited financial statements within six months of the end of the year of account...



Source: Office of the Comptroller and Auditor General

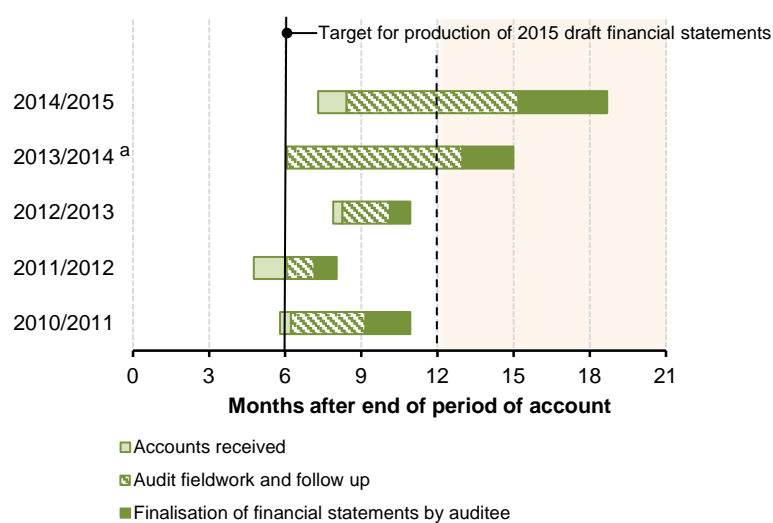
Note: a Audit fieldwork commenced as soon as draft accounts were received.

Dublin Institute of Technology

- 3.7** The 2014/2015 financial statements for Dublin Institute of Technology were cleared for finalisation by the body at the end of November 2016 subject to receipt of further information in relation to one issue. Once that issue was resolved, the financial statements were signed at the next meeting of the governing body in March 2017 and certified on 14 March 2017 (see Figure 3.5).

Figure 3.5 Dublin Institute of Technology audits, 2010/2011 to 2014/2015

Dublin Institute of Technology took longer to get audited financial statements for 2014/2015 than for earlier years...



Source: Office of the Comptroller and Auditor General

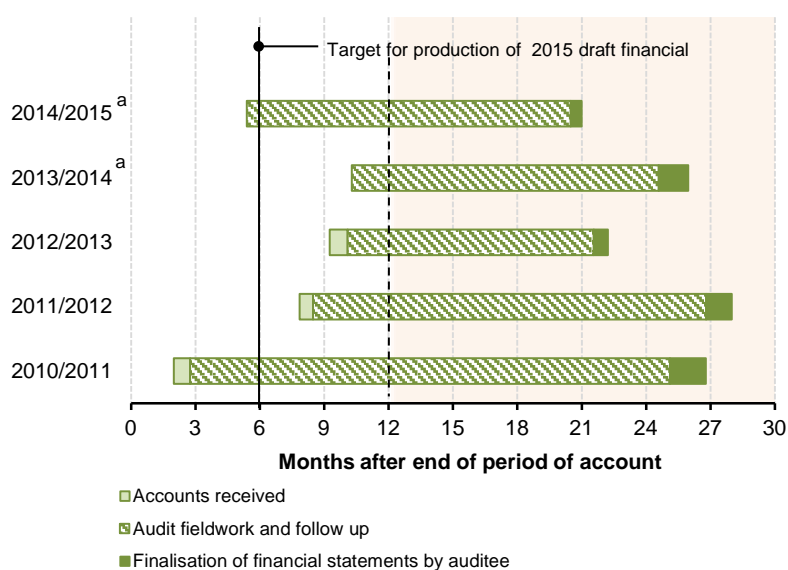
Note: a Audit fieldwork commenced as soon as draft accounts were received.

Waterford Institute of Technology

- 3.8** Following persistent delays over several years in relation to the financial statements for Waterford Institute of Technology, some progress was made in improving audit timeliness for 2012/2013 (Figure 3.6). However, the audit was significantly delayed again for 2013/2014, due to difficulties experienced by the Institute in producing consolidated financial statements for the first time.¹ This delay had a 'knock-on' effect on the 2014/2015 financial statements, which were certified on 2 June 2017.

Figure 3.6 Waterford Institute of Technology 2010/2011 to 2014/2015 audits

Waterford Institute of Technology continued to have difficulty in getting audit financial statements in a timely way ...



¹ A qualified audit opinion was issued in respect of the 2013/2014 financial statements due to the failure of the Institute to include prior year comparative figures.

Source: Office of the Comptroller and Auditor General

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

National College of Art and Design

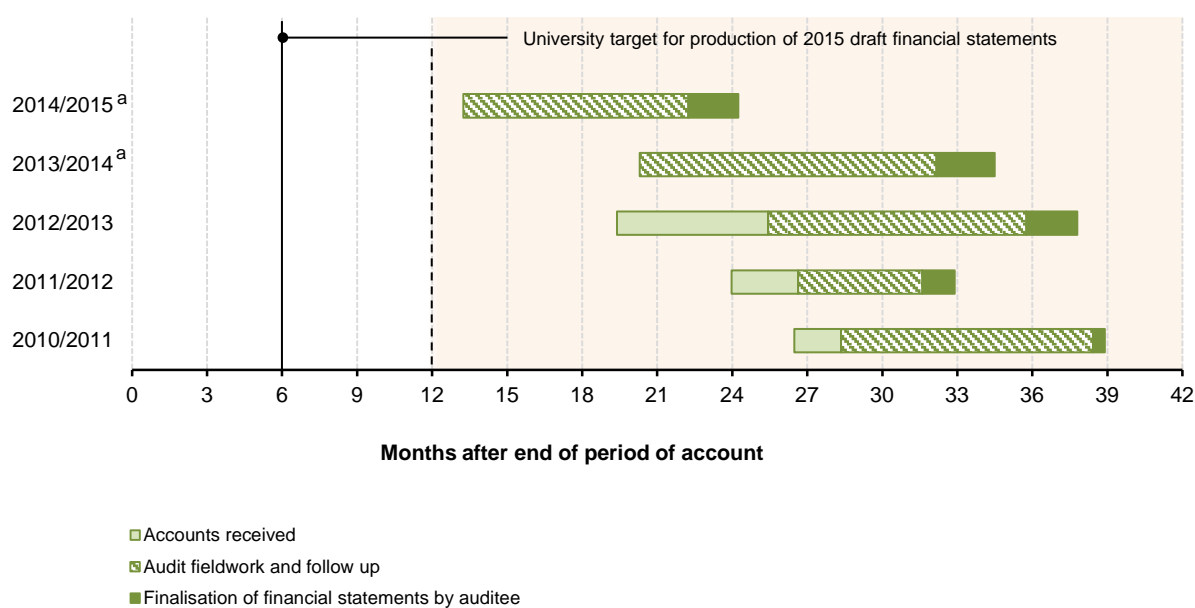
3.9 There have been persistent delays over a number of years in finalising the financial statements for the National College of Art and Design (see Figure 3.7). A range of accountability and governance issues at the College, including significant delays in the production of accounts were previously reported.¹ Qualified audit opinions were issued in respect of the financial statements for 2010/2011, 2011/2012 and 2012/2013, due to the College's failure to maintain adequate accounting records. Inadequate records, combined with other weaknesses in the College's accounting systems, have presented significant challenges for the annual audit process and have necessitated substantial additional testing.

1 Special Report 85:
*Accountability and Governance
at the National College of Art and
Design*, August 2014.

3.10 The 2013/2014 financial statements were certified on 31 July 2017. The 2014/2015 financial statements were certified on 4 October 2017, representing a significant improvement in timeliness.

Figure 3.7 National College of Art and Design 2010/2011 to 2014/2015 audits

The National College of Art and Design has made progress in getting audited financial statements...



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

- 3.11** The Higher Education Authority (HEA) has stated that it continues to stress to all higher education institutions the importance of prioritising the completion of financial statements. The 2017 annual grant allocation letters again stated that annual financial statements should be prepared and ready for audit on a timely basis. It also required institutions to ensure that adequate resources are committed to providing follow up explanations to Comptroller and Auditor General queries to ensure that these are progressed in a timely manner. Institutions were also requested to take action, as a matter of priority, on any recommendations or issues arising from internal and external audits.
- 3.12** The HEA is seeking to further embed timeliness and other governance issues within its approach to funding institutions. As part of a review of the funding model, it plans to introduce in 2018 a penalty system for non-compliance with governance issues, including the timeliness of submission of financial statements.
- 3.13** It has also surveyed the institutions to ascertain the dates by which financial statements will be ready for audit. Based on the responses received, it considers that the delays that have previously been a feature of some institutions will be substantially eliminated by the end of 2017.
- 3.14** The HEA has stated that it has actively engaged with the National College of Art and Design since the publication of Special Report 85 in order to address the governance and accountability issues identified. This includes the development by the College of a governance master plan. While many of the issues will continue to feature for legacy reasons, it is anticipated that there will be significant improvement for the 2016/2017 financial statements. The College has been working towards the finalisation of its outstanding financial statements.

Other accounts in arrears

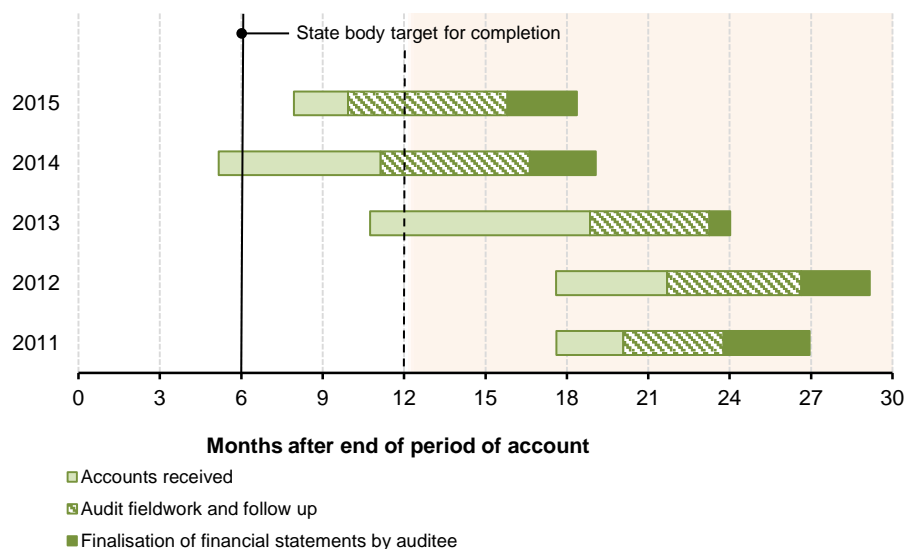
- 3.16** Excluding ETBs and higher education bodies, there were three accounts in arrears at the end of 2016. Two of these bodies have relatively small turnover and have since been certified — the Pre Hospital Emergency Care Council (expenditure of less than €3 million) was certified on 31 January 2017 and Bord na gCon Irish Retired Greyhounds Trust (expenditure of €225,000) was certified on 5 April 2017.

Fishery Harbour Centres

- 3.17** The audits of the fishery harbour centres accounts for the years 2008 to 2011 were certified in March 2014 with each receiving a qualified audit opinion with regard to the keeping of proper books of account.¹ The 2012 accounts, certified in May 2015, received a clear audit opinion. Some progress was then made in improving the timeliness of submission of accounts for audit (Figure 3.8). However, the 2015 accounts were not received until August 2016 and due to delays in receiving responses to requests for information, these were not certified until July 2017.

Figure 3.8 Fishery Harbour Centres 2011 to 2015 audits

The Department has made significant progress in producing audited financial statements for the Fishery Harbour Centres...



¹ The issues that gave rise to delays in these accounts were reported on in Special Report 82, *Financial Management and Reporting for Fishery Harbour Centres*, April 2014.

Source: Office of the Comptroller and Auditor General

Conclusion

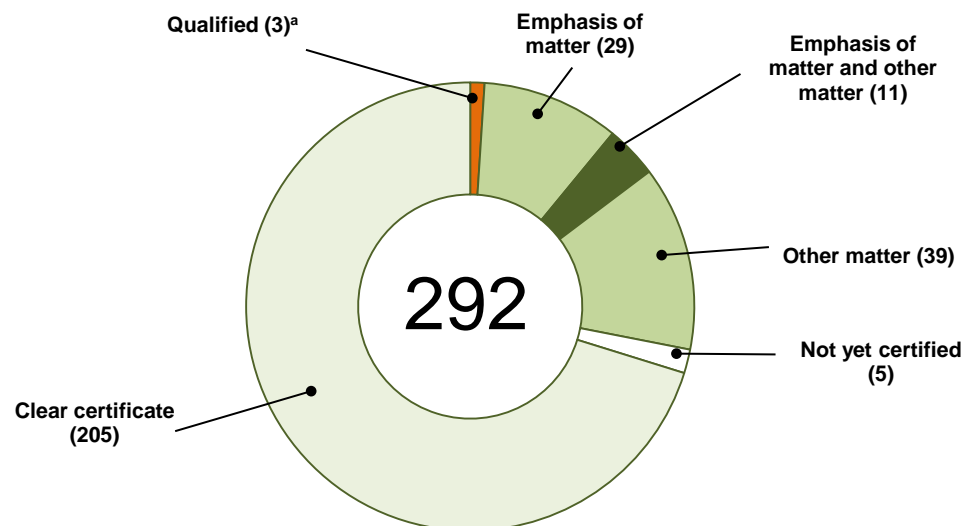
- 3.18** There were 16 financial statements in respect of prior years that had not been certified by the end of 2016. At the end of August 2017, six remained uncompleted.
- 3.19** The education and training boards had a particularly high level of arrears at the end of 2015 as the sector went through a transformational change. While the situation has improved, there were still five boards whose accounts were in arrears at the end of 2016.
- 3.20** Universities have had a high incidence of arrears for a number of years. This sector has shown significant improvement in the last year with accounts in arrears dropping from six at the end of 2015 to just three accounts at the end of 2016, all of which have since been certified. This has happened in the context of regular meetings between the Office of the Comptroller and Auditor General and the Higher Education Authority, and the cooperation of the universities.

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 forming the audit opinion, a conclusion is reached as to whether the audit obtained reasonable assurance as to whether the financial statements are free from material misstatement.
- 4.2** In addition to the audit opinion, the audit report may draw attention to matters that assist 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.
- 4.3** The 2015 financial statements of 205 bodies received a clear audit report, with no matter drawn to attention (see Figure 4.1).

Figure 4.1 Audit reports — 2015 financial statements, at 31 August 2017

Most financial statements received a clear audit opinion...



Source: Office of the Comptroller and Auditor General

Note: a One of the qualified audit reports also included an emphasis of matter paragraph and one also included a matter reported by exception.

Qualified audit opinions

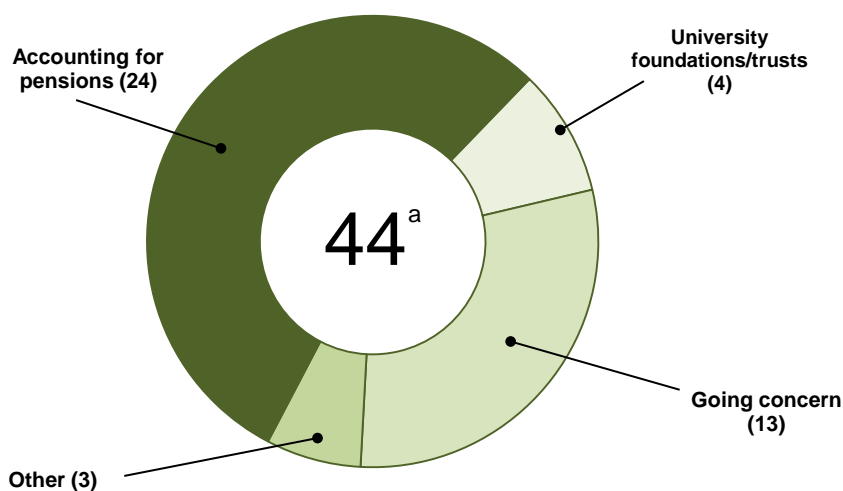
- 4.4** Three financial statements received a qualified audit opinion. The National Tourism Development Authority's financial statements were qualified because deferred pension funding for one of three pension schemes operated by the Authority was not recognised.
- 4.5** University College Cork's financial statements were qualified arising from disagreement on the accounting treatment of future pension funding and also because of the non-consolidation of a college trust fund. The HEA has stated that the specific future pension funding issue which has resulted in a qualified audit opinion is now in the process of resolution between the HEA, the Department of Education and Skills and the College while the trust fund will be consolidated in the 2015/2016 financial statements.
- 4.6** The National Gallery's financial statements were qualified because heritage assets acquired since 2011 were not accounted for in accordance with generally accepted accounting practice.

Emphasis of matter

- 4.7** 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.
- 4.8** Emphasis of matter paragraphs were included in the audit reports for 41 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 44 matters were reported.

Figure 4.2 Issues in emphasis of matter paragraphs, 2015 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

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

Accounting for pensions

- 4.9** As pension entitlements of a public body's employees accrue, a liability is recognised on the balance sheet. 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.
- 4.10** The situation is more complex for State bodies that generate significant levels of income 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 13 sets of financial statements, 11 of which are in the higher education sector.
- 4.11** The matter of pensions liabilities was also reported for ten health sector bodies. Those bodies account for pensions on a 'pay-as-you-go' basis as directed by the Minister for Health. This approach does not comply with generally accepted accounting practice.
- 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 has established a working group to review the accounting treatment of pensions in the public sector, in particular in the health, education and local government sectors.¹ The Department of Public Expenditure and Reform has stated that the group is due to report in late 2017.

University foundations and trusts

- 4.14** The audit reports for four universities draw attention to the accumulated assets of foundations or trusts which have not been consolidated into the financial statements of the university.
- 4.15** The HEA has stated that it has made clear to the institutions that trusts and foundations should be consolidated in the financial statements. However, if institutions believe that for technical reasons they cannot consolidate, the HEA requires that a full disclosure is made and that the financial statements of the trust or foundation are made available with the institutions' financial statements.

Going concern

- 4.16** The audit reports for six institutes of technology draw attention to the financial difficulties they are experiencing and the basis for each institute's assessment of its ability to continue as a going concern. Because of the way in which the National Asset Management Agency has been funded, a 'going concern' emphasis of matter paragraph has been included in the group accounts since its establishment. This is also the case for five of its subsidiaries. In the case of Bord na gCon, the audit report draws attention to its high level of borrowings.

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

Other issues

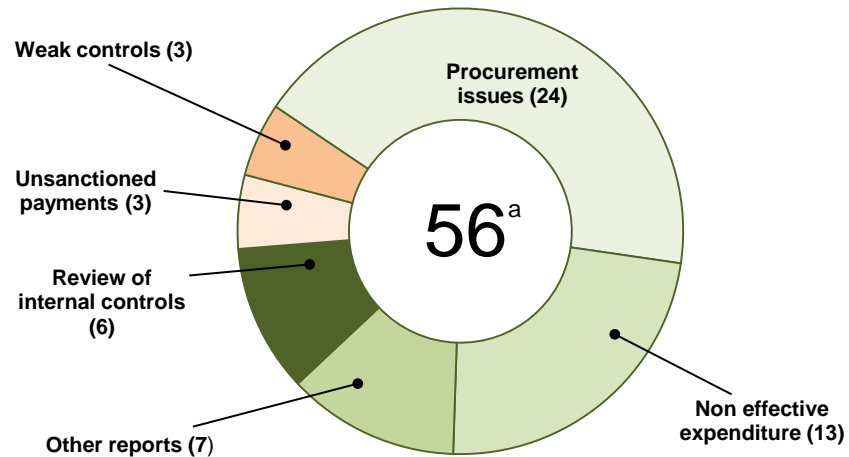
- 4.17** The National Museum recognised a provision of almost €500,000 for public and employer liability claims with a matching amount recognised as recoverable from the Museum's funding Department (Culture, Heritage and the Gaeltacht). The audit report draws attention to this because the Department has not committed to providing the funding.
- 4.18** The audit reports of two bodies — An Chéim Computer Services Limited and Aontacht Pobal Teoranta — make reference to the fact that the companies are in the process of being wound up. In both cases, all of the assets and liabilities are being transferred to other public bodies.

Matters reported by exception

- 4.19** 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 financial 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.
- 4.20** The audit reports for 51 bodies made reference to 56 such matters. Figure 4.3 sets out the types of matters reported.

Figure 4.3 Matters reported by exception, 2015 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

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

4.21 The matters reported related to

- **Procurement issues** — generally where a material level 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 lease or frauds) or instances of losses.
- **Other reports** — the audit report may make reference to the inclusion of a chapter in the *Report on the Accounts of the Public Services* in the case of an appropriation account or the publication, or possible publication, of a special report in the case of the financial statements of a body other than a Government department or office.
- **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.
- **Unsanctioned payments** — payments where the appropriate approval has not been obtained, including employment contracts and severance payments.
- **Weak controls** — identified weaknesses in controls over transactions or assets.

Conclusions

- 4.23** Qualification of the audit opinion on a set of financial statements of a public body is relatively unusual. Just three of the audit opinions issued to date in respect of accounting years ending in 2015 were qualified.
- 4.24** Emphasis of matter paragraphs are included in audit reports to assist users to better understand the information presented in a set of financial statements. Of the audit reports issued to date for 2015, there were 41 with emphasis of matter paragraphs (44 matters were reported). For most of the bodies concerned, such paragraphs tend to repeat from year to year as they arise from circumstances which are either outside the control of the body or are unlikely to change in the short term.
- 4.25** Other matters identified during the audit which should be brought to the attention of the Oireachtas are included in audit reports on an exception basis. The matters mainly relate to the effective use of public funds and issues around governance, controls and financial reporting. Of the audit reports issued to date for 2015, there were 51 which made reference to such matters (there were 56 matters reported). Highlighting such issues should assist in the accountability process and enable bodies to apply the lessons learned in future years.

Appendix

Appendix A Targets for production and audit of financial statements

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	6 months
Universities	Universities Act 1997 and C&AG 2015 order	6 months (reducing to 4 months for 2016/2017)	None ^a
Institutes of technology	Institutes of Technology Acts 1992 to 2006 and C&AG 2015 order	6 months (reducing to 3 months for 2016/2017)	None ^a
Education and training boards	Education and Training Board Act 2013	3 months	None ^a

Source: Office of the Comptroller and Auditor General

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