Comptroller and Auditor General
Special Report

Public Sector Financial Reporting for 2017

Report number 108 December 2019

Report of the Comptroller and Auditor General

Public Sector Financial Reporting for 2017

I have carried out a review of financial reporting by public bodies in respect of periods of account ending in 2017, and which were the subject of audit by me in 2018. 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

16 December 2019

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Summary

Summary

Timely preparation and publication of audited financial statements is fundamental to the accountability and effective oversight of public bodies.

This report reviews the timeliness of public sector financial reporting and focuses mainly on financial statements for periods ending in 2017.[1] It identifies those bodies where delays in reporting have occurred and outlines the causes of those delays. The report also summarises the types of issue that were brought to attention in the Comptroller and Auditor General's audit reports on financial statements for 2017. Similar reports on financial statements for periods ending in 2016, 2015 and 2014 have previously been published.[2]

Production of 2017 financial statements and audit completion

The Comptroller and Auditor General was responsible for the audit of the 2017 financial statements of 285 public bodies and funds with an aggregate turnover of €230 billion.[3]

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 2017 and 2018 appropriation accounts by the statutory deadline of three months after the year end. Around two-thirds (64%) of other bodies produced draft 2017 financial statements for audit within three months of the end of their accounting period. The corresponding figure for the 2018 year of account was 72%.

By the end of September 2018, audits had been completed in respect of 61% of financial statements for the 2017 year of account. These accounted for 97% of the value of 2017 turnover audited.

Accounts in arrears

At the end of 2018, there were eight sets of financial statements for 2017 or earlier periods that had not been certified. There has been a progressive improvement since the end of 2015 when there were 25 sets of financial statements in arrears.

Five of the accounts in arrears at the end of 2018 were in the higher education sector. While significant progress has been made to improve timeliness of financial reporting in that sector, a number of institutions still need to improve their performance in that regard.

1 Where relevant, information in respect of the 2018 year of account is also provided.

2 Special Report 100 *Public Sector Financial Reporting for 2016*, Special Report 99, *Financial Reporting in the Public Sector for 2015* and Special Report 95, *Financial Reporting in the Public Sector.*

3 Includes all bodies and funds with financial statements for periods of account ending during 2017.

Opinion on the financial statements

Depending on the requirements of the particular accounting framework adopted, the Comptroller and Auditor General's audit report will state his opinion on 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
- ***properly present*** the entity's transactions and balances.

An ***unqualified audit opinion*** is given if the financial statements give a true and fair view or properly present the transactions/balances (as appropriate). If this is not the case, a ***qualified audit opinion*** may be given.

Most of the 2017 financial statements certified received an unqualified audit opinion — just thirteen were qualified. In all of those cases, the basis for the qualified opinion related to pension accounting issues.

Regardless of whether the audit opinion is qualified or unqualified, the Comptroller and Auditor General's audit report may draw attention to an accounting matter which is considered to be important for users to be aware of in reading and understanding the financial statements. The 2017 audit reports highlighted 25 matters in this way, including

- eight cases outlining explanations provided in the financial statements about accumulated deficits or liabilities, and why the bodies concerned consider they remain 'going concerns'
- fifteen cases where bodies generating significant non-State income from their activities account for how they expect to fund future pension liabilities
- one case where accrued pension liabilities had not been recognised pending completion of negotiations about which public body will meet the liabilities
- one case where there was a material change in the body's accounting policy for heritage assets.

Exception reporting

Other specific matters are referred to in audit reports where it is considered appropriate to bring them to the attention of the Oireachtas. Such matters generally relate to the use of public funds, or to governance and control issues. There were 91 such matters identified in the audit reports certified to date for 2017. Cases where public bodies did not comply with the relevant procurement process for purchases of €500,000 or more of goods and services accounted for almost half of the matters reported. In general, the remainder related to control weaknesses that had occurred during 2017 and concerns over the adequacy of internal audit resources and output.

Public Sector Financial Reporting for 2017

1 Introduction

1.1 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. Production of accurate financial statements with an unmodified audit report is an indication of effective management of public funds by a body.

1.2 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.

1.3 The independent 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.

Scope of audits by the Comptroller and Auditor General

1.4 For the 2017 year of account, the Comptroller and Auditor General was responsible for the audit of 285 sets of financial statements produced by public bodies.[1] These include government departments, departmental funds and a range of State bodies that are responsible for the management and control of an aggregate €230 billion of public money (Figure 1.1).

Figure 1.1 Public bodies and funds audited by the Comptroller and Auditor General

Category	Number	2017 turnover[a] €billion
Central government		
▪ Central Fund-related accounts	11	131
▪ appropriation accounts	41	49
▪ departmental funds	20	15
HSE and health agencies	25	17
Third level education bodies	25	3
Education and training boards	16	2
North/South bodies	7	0.2
Other State agencies (non-commercial)	140	13
Total	**285**	**230**

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 Comprises periods of account ending in 2017. Most public bodies account on a calendar year basis. Some bodies (especially in the third-level education sector) account on a 12-month cycle that does not coincide with a calendar year.

1.5 The number of bodies and accounts subject to audit by the Comptroller and Auditor General can change each year, arising from the

- creation of new bodies
- amalgamation of existing bodies
- cessation of activities and/or wind-down of existing bodies.

1.6 Audits were carried out for the first time in respect of the Legal Services Regularity Authority (reporting for the period October 2016 to end December 2017) and the Department of Rural and Community Development (reporting through a 2017 appropriation account).

1.7 Final audits on 2017 financial statements were carried out in respect of the Financial Services Ombudsman Bureau and the Office of the Pensions Ombudsman. Both entities were dissolved on 31 December 2017 with assets and liabilities transferring to the Office of the Financial Services and Pensions Ombudsman, established on 1 January 2018.

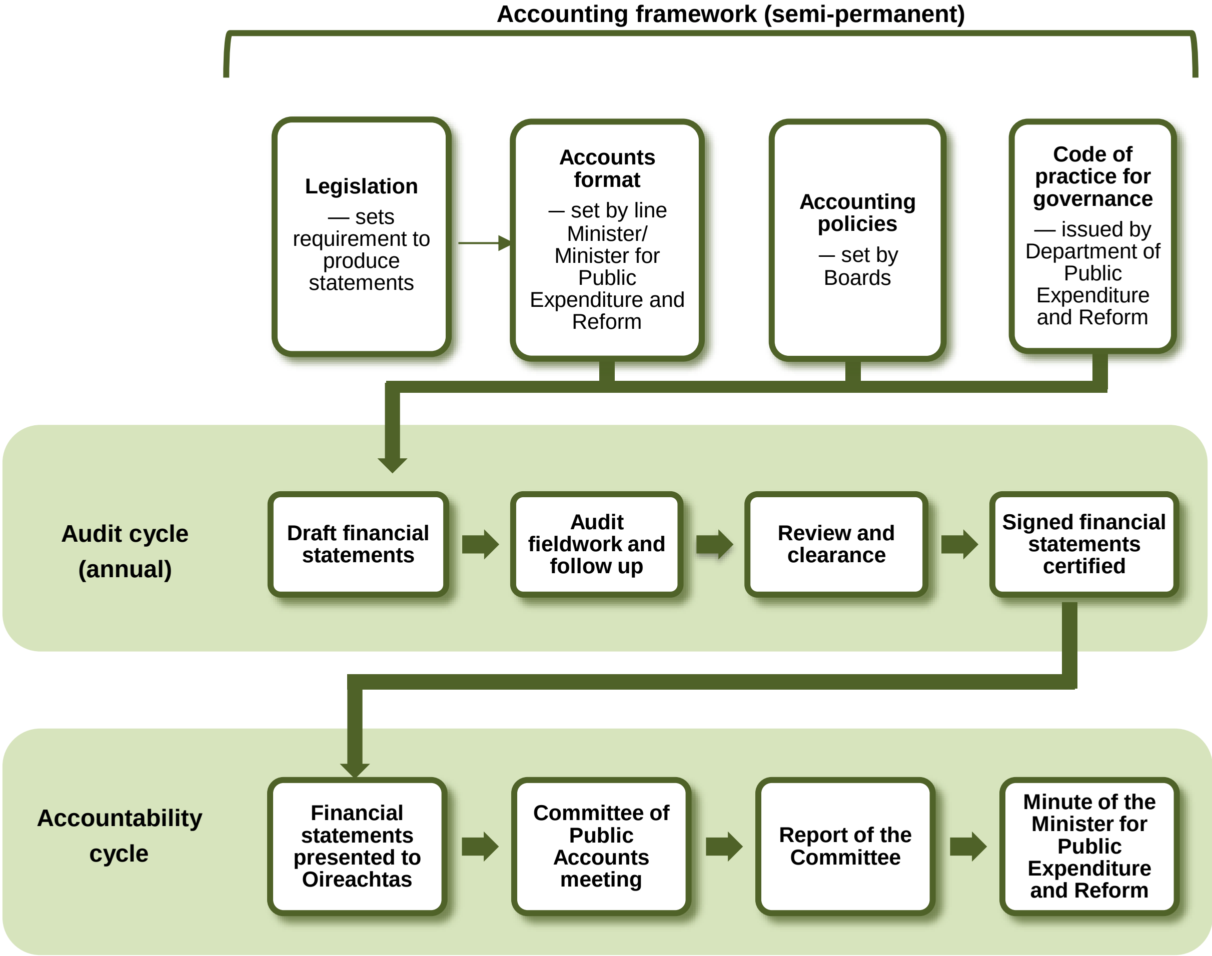
1.8 This report focuses primarily on the timeliness of public sector financial reporting for periods of account ending in 2017 (Chapter 2). It identifies those bodies where delays have occurred in reporting, and the causes of such delays (Chapter 3). It also provides an overview of the outcome of the audits (Chapter 4).

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.

2.3 In presenting financial statements for audit, an accounting officer or board 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, the assets and liabilities exist, and all are proper to the body/fund
- 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 authorities governing them.

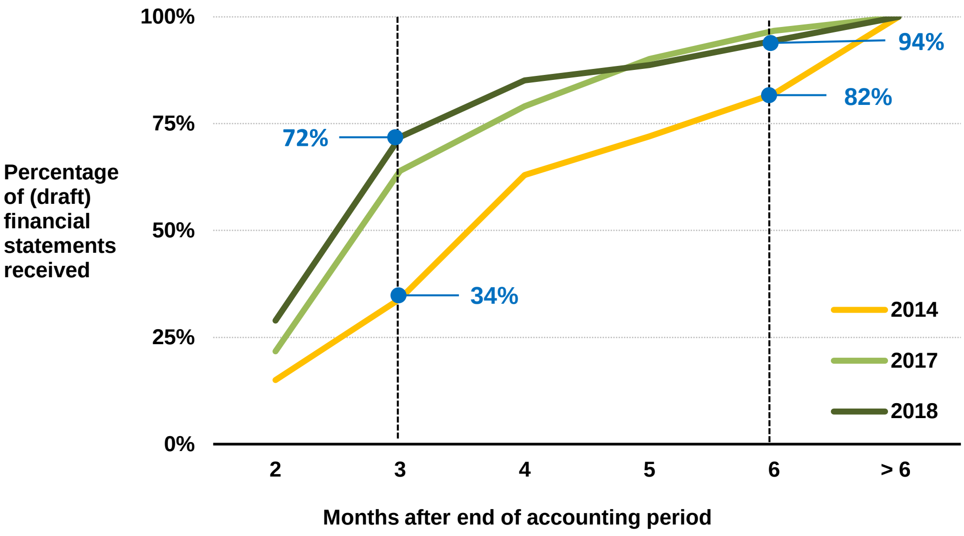
2.4 Time targets for the production by public bodies of financial statements for audit and for the publication of audited financial statements have evolved in a piecemeal way, with the result that different targets apply to different categories of body.[1] For some bodies/funds, targets are specified in legislation. For others, targets are implicit in standards set out in the relevant codes of governance. For a few 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.

2.5 For most bodies, financial statements should be presented for audit within two to three months of the end of the accounting period. For both 2017 and 2018, all appropriation accounts were produced by the statutory deadline (i.e. within three months). For other accounts, 64% of bodies submitted their 2017 financial statements for audit within three months of the end of their accounting period. The corresponding figure for 2018 financial statements was 72%. This represents a significant improvement since 2014, when only one-third of non-Vote financial statements were submitted within three months of the end of the period of account. 97% of bodies had submitted their 2017 financial statements within six months of the year end. This fell back slightly to 94% for 2018 financial statements (see Figure 2.2).

1 See Appendix A.

Figure 2.2 Production of (draft) financial statements for audit (other than departmental appropriation accounts), 2014 to 2018 years of account

There has been a steady improvement in the overall timeliness of presentation of financial statements for audit since 2014….



Source: Office of the Comptroller and Auditor General

Audit completion

2.6 As with submission of draft financial statements for audit, the statutory or other requirement to complete audits varies. The relevant deadlines are set out in Appendix A.

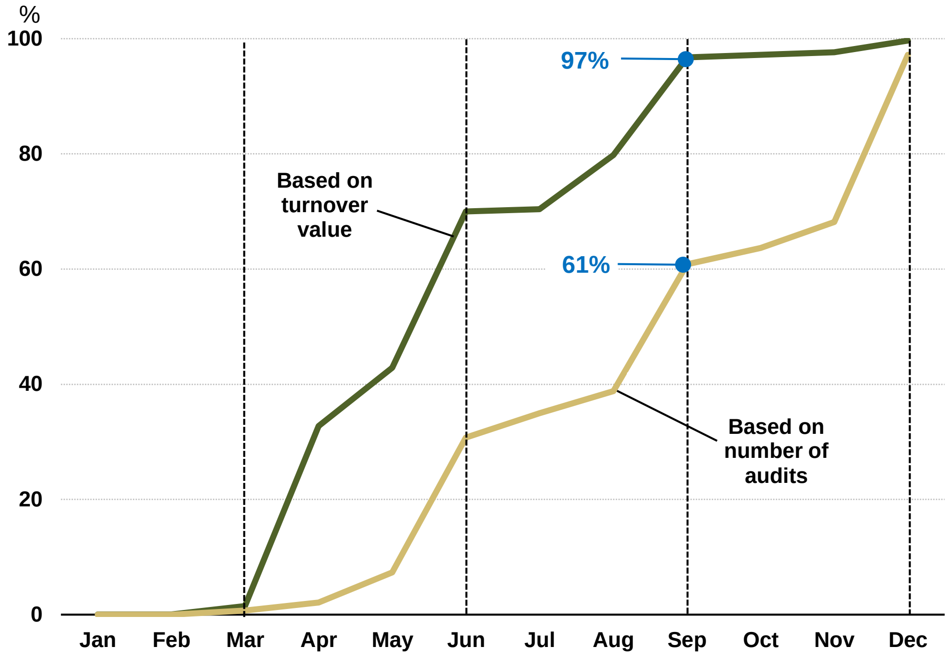
2.7 Timeliness of audit completion is measured on the basis of the level of turnover and of the number of audits. The profile of audit completion in 2018 by number and turnover is shown in Figure 2.3 (over).

2.8 Bodies and funds with higher turnover are prioritised for audit. As a result, by the end of September 2018, 61% of audits for the 2017 year of account had been completed, but this represented 97% of the value of 2017 turnover audited. At the end of 2018, 97% of audits were completed, representing 99.6% of the total turnover.[1]

1 This refers to 2017 accounts. In addition, 12 accounts, relating to prior years (2015 and 2016), all in arrears at the end of 2017, were certified in 2018.

Figure 2.3 Audit completion profile 2018 (2017 year of account)

Financial statements of higher turnover bodies had audit priority ….



Source: Office of the Comptroller and Auditor General

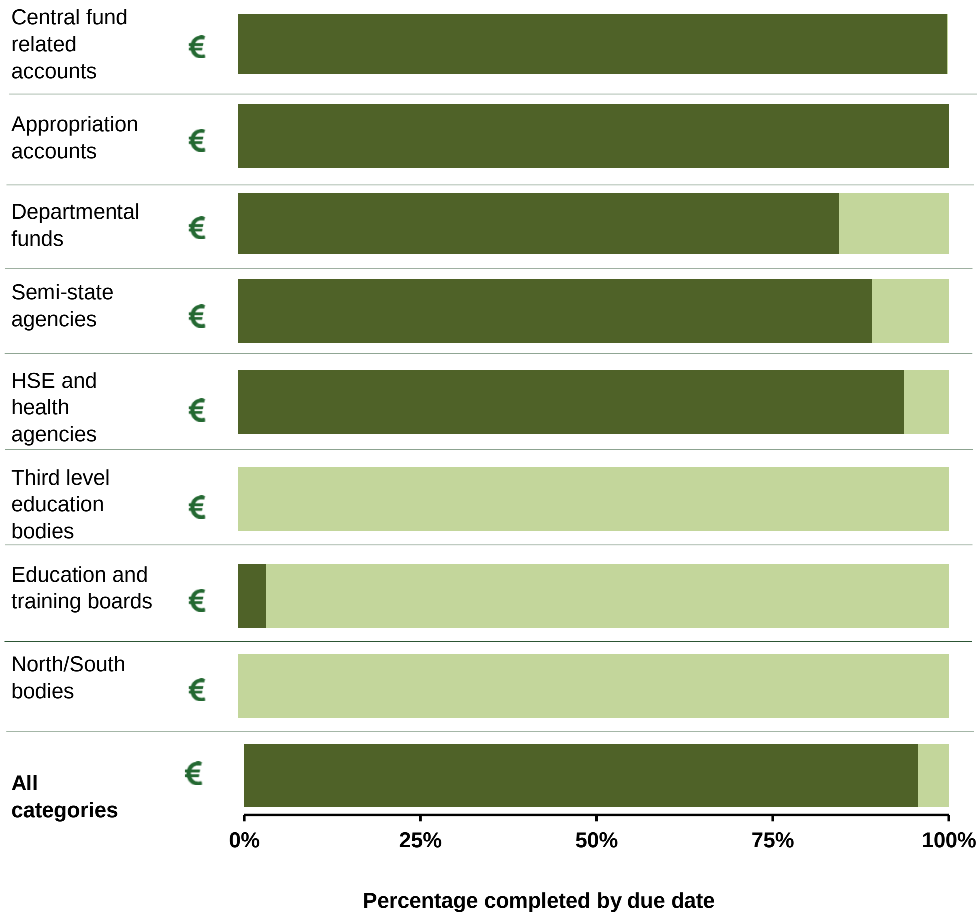
2.9 The level of compliance with completion targets for the audits of 2017 financial statements for each category of body is shown in Figure 2.4 (over). Overall, audits accounting for 96% of the total turnover subject to audit were completed on time.

2.10 None of the 25 third level education bodies nor the seven North/South bodies had audited 2017 financial statements within six months of the end of the financial year. There was a small improvement in respect of the 2018 year of account — audits of two of the North/South bodies and one of the third level education bodies were completed within six months.

2.11 For the 2017 year of account, the audit of just one of the sixteen education and training boards was completed within six months of the year-end. The performance of the sector improved in respect of 2018 financial statements, with the audits of five education and training boards being completed within six months of the year-end.

Figure 2.4 Compliance with audit completion targets[a], 2017 audits (by value)

Audit completion was not timely in some sectors…..



Source: Office of the Comptroller and Auditor General

Notes: a 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.

■ Compliant with (actual or implied) target

■ Non-compliant with (actual or implied) target

€ Financial statements by value

Conclusion

2.12 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.

2.13 As a result of greater emphasis on the need for timeliness, and good cooperation, there has been a progressive improvement over recent years in the timeliness of financial reporting by public bodies.

2.14 Overall, audited financial statements for 61% of public bodies were certified and available for presentation to the Houses of the Oireachtas by the end of September 2018 — these accounted for 97% of the value of turnover for audit.

3 Accounts in arrears

3.1 Cooperation, good planning and sufficient capacity on both sides are the principal factors that contribute to timely audit completion. However, delays can occur during the process of audit for a variety of reasons. Accounts not certified by the end of the year following the year of account are referred to as accounts in arrears.

3.2 At the end of 2018, there were eight accounts in arrears including one for a period of account ending in 2016 (Figure 3.1). This compares to 13 accounts in arrears at the end of 2017, 16 at the end of 2016, and 25 at the end of 2015.

Figure 3.1 Accounts in arrears at year end 2018

Type/name of body

Higher education institutions	Year
University College Cork	2016/2017
Dublin City University	2016/2017
St Patrick's College, Drumcondra	2016/2017
Waterford Institute of Technology	2016/2017
Institute of Technology Tralee	2016/2017
Other bodies	Year
Credit Union Restructuring Board	2017
Kildare and Wicklow Education and Training Board	2016 and 2017

Source: Office of the Comptroller and Auditor General

Higher education institutions

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

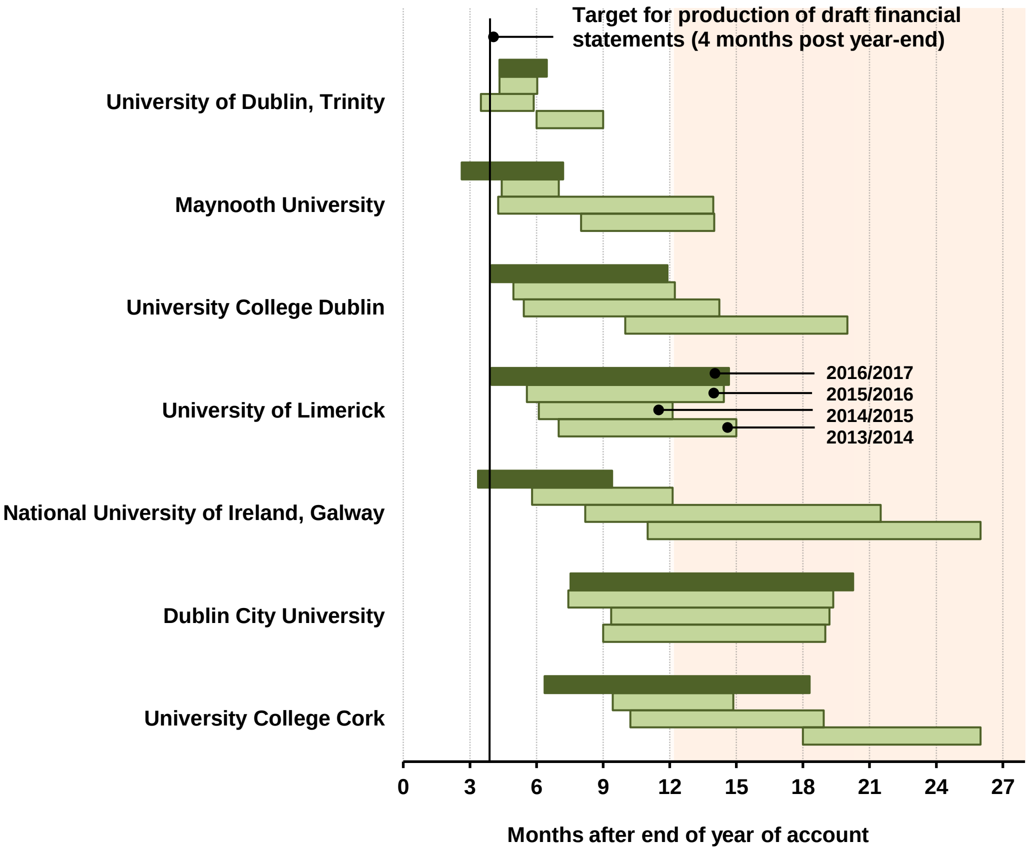
Universities

3.4 In the past, there was a general problem of late submission of draft university financial statements for audit, and protracted audits, resulting in a significant number of arrears. The situation has improved over recent years. For example, six sets of financial statements for four universities were in arrears at the end of 2015. At the end of 2018, only the financial statements of Dublin City University and University College Cork were in arrears.

3.5 Figure 3.2 summarises the timeliness of production of audited financial statements for each of the seven universities over the last four years.

Figure 3.2 Timeliness of university audits, 2013/2014 to 2016/2017

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



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.

3.6 Universities account on an academic year basis (1 October to 30 September). The target submission date for 2016/2017 draft financial statements was four months after the year of account i.e. 31 January 2018.[1] Four of the seven universities met this target.

3.7 The audit of university annual financial statements is complicated by the practice in most universities of appointing commercial auditing firms to carry out an external audit before or in parallel with the statutory audit by the Comptroller and Auditor General. The exception in this regard is Maynooth University, which has not appointed commercial auditors since the 2014/2015 audit.

3.8 However, the appointment of commercial auditors does not need to result in a protracted audit, as is evident in the case of Trinity College Dublin. In that case, close cooperation between all parties from the planning of the audit, and speedy handling of audit queries by the university results in production of audited financial statements generally within six months of the end of the year of reporting. A similar approach in NUI Galway is succeeding in substantially reducing the audit duration.

1 The Comptroller and Auditor General has powers under the Universities Act 1997 to specify the date for submission of financial statements for audit.

University College Cork

3.9 Preliminary audit fieldwork in respect of the 2016/2017 year of account was carried out in University College Cork (UCC) in November 2017. Draft financial statements were received from the University in April 2018. Final audit fieldwork was carried out during May 2018. Revised draft financial statements were received in September 2018. Three further revised drafts were received up to 19 November 2018.

3.10 The University signed an agreement with the Higher Education Authority (HEA) in October 2017, setting out how certain pension liabilities would be shared between both parties over a projected fifty-year period. Notwithstanding discussions with both the University and the HEA, the audit was unable to obtain satisfactory evidence to support the accounting treatment adopted by the University in relation to that agreement.

3.11 The 2016/2017 financial statements for UCC were certified on 2 April 2019. The audit opinion was qualified, as a result of the matter described above.

3.12 UCC has stated that disagreement in respect of the pension accounting issue was the key contributor to the delay in audit certification. The University stated that it was a complex matter that required consultation with its commercial auditors and external actuaries, as well as engagement with the HEA and the Office of the Comptroller and Auditor General.

Dublin City University

3.13 Three educational institutions — St. Patrick's College, Drumcondra, the Mater Dei Institute of Education and the Church of Ireland College of Education — were incorporated into Dublin City University (DCU) with effect from 1 October 2016. DCU has stated that the incorporation represented a largescale, multi-year complex change project, which was approved and supported by the HEA and the Department of Education and Skills.

3.14 The need to appropriately reflect the incorporation in the consolidated accounts of the University, including preparation of prior year comparatives on a consistent basis, led to a delay in the submission by DCU of 2016/2017 financial statements for audit. Draft financial statements were submitted in May 2018, but a significantly revised draft (including a different accounting treatment for the incorporation, as agreed with DCU's commercial auditors and the Office of the Comptroller and Auditor General) was provided for audit on 1 October 2018.

3.15 Following completion of the final audit fieldwork during October 2018, delays were experienced by the audit in obtaining satisfactory responses to issues raised and in receiving further supporting evidence from the University. Response to matters raised during the audit review and clearance process resulted in the submission by DCU of further revised draft financial statements on 1 April 2019 and 1 May 2019. The 2016/2017 financial statements for DCU were certified on 27 May 2019.

3.16 In response to this report, DCU has also drawn attention to the relatively high number of trading subsidiaries within its structure in comparison to other universities. The University has stated that its consolidated financial statements cannot be submitted for audit until the subsidiary company audits are complete. Notwithstanding this, DCU has stated that it is implementing a new financial reporting system which it expects to streamline the production of the subsidiary company and University group financial statements.

St Patrick's College, Drumcondra

3.17 The activities of St Patrick's College were incorporated into DCU with effect from 1 October 2016, with the majority of the College's assets and liabilities transferring to the University on the same date.

3.18 St Patrick's College will continue in existence, albeit with minimal activity, because certain liabilities that may arise in the future were not transferred to DCU as part of the incorporation agreement. Accordingly, the obligations on the College to produce annual accounts and the duty of the Comptroller and Auditor General to audit those accounts continues in force.

3.19 Draft accounts for the College in respect of the 2016/2017 financial year were provided at the end of November 2018, and audit fieldwork was carried out in early December 2018. The audit identified a significant error in respect of fixed assets recognised in the financial statements and communicated this to the College. Revised draft financial statements were received in June 2019. The 2016/2017 financial statements were certified on 25 July 2019.

Waterford Institute of Technology

3.20 There have been delays over a number of years in the production of audited financial statements for Waterford Institute of Technology.[1] This has had a knock-on effect on succeeding years' audits. In addition, significant changes were required to the Waterford IT draft financial statements for 2016/2017 submitted for audit, including an adjustment to correct a material prior period error.

3.21 Revised draft financial statements reflecting, inter alia, the prior year adjustment were received on 4 April 2019. The 2016/2017 financial statements were certified on 26 June 2019.

Institute of Technology Tralee

3.22 Similar to other institutes of technology, the production of IT Tralee financial statements for 2016/2017 was delayed due to the introduction of pension accounting for the sector. In the case of IT Tralee, the financial statements were cleared in October 2018 subject to the inclusion of the necessary accounting entries in relation to pensions. There was a delay in the Institute providing the necessary information to the actuary engaged to perform pension calculations for the sector. Consequently, the actuarial report in respect of IT Tralee was not completed until 29 January 2019.

3.23 Signed financial statements were received from IT Tralee on 27 February 2019 and certified by the Comptroller and Auditor General on 1 March 2019.

1 The reasons for delays included accounting adjustments, issues relating to subsidiary companies and research spin outs.

Other accounts in arrears

3.24 Excluding the higher education sector, there were two public bodies with accounts in arrears at the end of 2018 — the Credit Union Restructuring Board and the Kildare and Wicklow Education and Training Board.

Credit Union Restructuring Board

3.25 The Credit Union Restructuring Board concluded its work on 31 March 2017. Following a statutory review[1], the Minister for Finance has decided to dissolve the Credit Union Restructuring Board. It is intended that the dissolution will be implemented by way of primary legislation. While legislation has been initiated, a final dissolution date has not been determined.

3.26 The onsite audit fieldwork for the Credit Union Restructuring Board 2017 financial statements was completed in August 2018. At that time, several queries remained outstanding, including issues raised in relation to a number of key account balances. The Office has had ongoing engagement with the Chairman of the Board[2] in the intervening period, but a number of significant issues have yet to be resolved by the Board.

Kildare and Wicklow Education and Training Board

3.27 Kildare and Wicklow ETB was the only public body audited by the Comptroller and Auditor General with two accounts in arrears at the end of 2018. These related to the 2016 and 2017 financial years of the ETB.

3.28 The delays in these cases arise from the knock-on effect of issues of concern identified during the audit of the 2015 financial statements, which could only be finalised in December 2018. The circumstances have been outlined in a special report.[3]

3.29 The 2016 financial statements for KWETB were certified on 30 June 2019.

Conclusion

3.30 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. The number of accounts in arrears at the end of 2018 was eight. This was down from 25 accounts in arrears at the end of 2015.

3.31 Significant progress has been made over recent years in addressing systemic delays which were a feature particularly of the higher education sector. However, a number of institutions still need to improve their performance in that regard.

1 The review was requested by the Minister for Finance to assist in the fulfilment of his obligations, under Section 43 of the Credit Union and Co-operation with Overseas Regulators Act 2012, to assess the extent to which the Credit Union Restructuring Board has completed the performance of its functions.

2 The current Chairman of the Board is one of two Department officials appointed by the Minister for Finance in August 2017 to manage matters during the period up to the dissolution date.

3 Report 106 *Kildare and Wicklow Education and Training Board Financial Statements 2015 — Supplementary report on lapses in controls over procurement of capital projects and certain other expenses*, published in February 2019.

4 Financial reporting outputs

Financial reporting frameworks

4.1 An audit includes consideration of the compliance of the (draft) financial statements with the requirements of the applicable financial reporting framework.

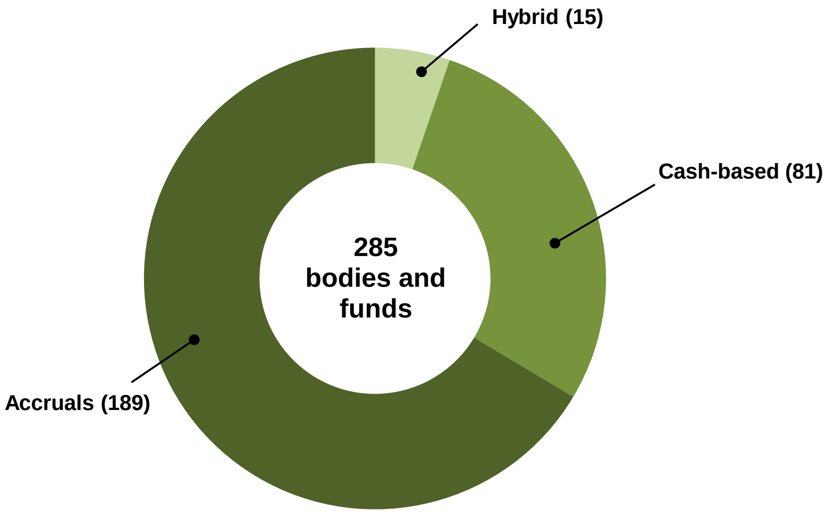
4.2 Public sector bodies are required to prepare annual financial statements under specified financial reporting frameworks. The appropriate framework for a public body to apply is usually provided for in law. In most cases, the enabling legislation gives the relevant Minister and/or the Minister for Public Expenditure and Reform the authority to specify the financial reporting framework.

4.3 In general, financial reporting frameworks in the public sector apply cash or accrual-based accounting, or some combination of the two — an overview of the different frameworks is provided in Appendix B.

4.4 Figure 4.1 shows the extent of usage of the different financial reporting frameworks for financial statements ending in 2017.

Figure 4.1 Financial reporting frameworks in the public sector

The majority of public bodies apply the accruals basis (and FRS 102[a] in particular) when preparing their financial statements ….



Source: Office of the Comptroller and Auditor General

Note: a *FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland* is issued by the Financial Reporting Council.

Opinion on the financial statements

4.5 Depending on the accounting framework adopted, the Comptroller and Auditor General's audit report will state his opinion on 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, in accordance with FRS 102 or IFRS[1] as appropriate, or
- ***properly present*** the entity's transactions and balances in accordance with the relevant accounting framework.

4.6 When the financial statements give a true and fair view or properly present the transactions/balances (as appropriate), an ***unqualified audit opinion*** is given. If this is not the case, then a ***qualified audit opinion*** may be given.[2]

4.7 Regardless of whether the audit opinion is qualified or unqualified, the Comptroller and Auditor General's audit report may refer to certain other matters relating to the financial statements, in what is called an ***emphasis of matter*** paragraph. This is included in the audit report to draw attention to an accounting matter which is considered to be important for users to be aware of in reading and understanding the financial statements.

Results for 2017

4.8 The 2017 financial statements of 270 (95%) bodies or funds audited by the Comptroller and Auditor General received an unqualified audit opinion (see Figure 4.2).

4.9 Thirteen financial statements prepared under FRS 102 accounting, for periods of account ending in 2017, received a qualified audit opinion. The basis for qualification in all those cases related to pension accounting issues.

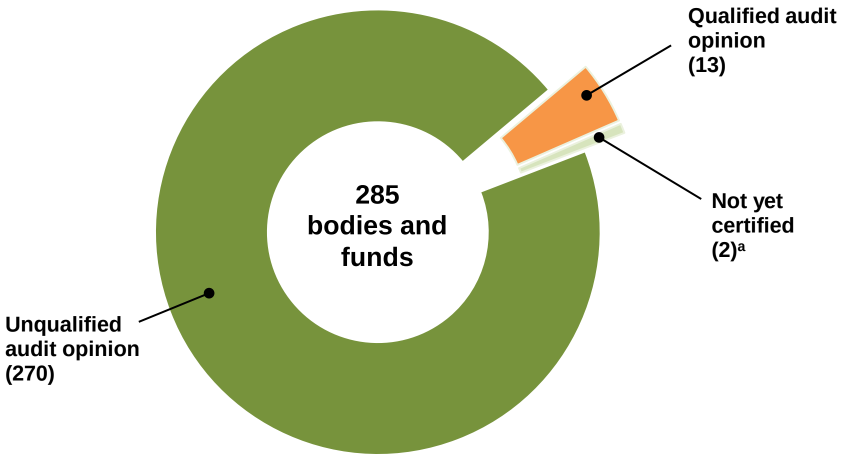
4.10 Emphasis of matter paragraphs were included in the audit reports for 24 bodies or funds (see Figure 4.2). As two matters were reported in the case of one body, a total of 25 matters were reported. Nearly two-thirds of the emphasis of matter paragraphs are pension-related.

1 Most accrual accounts of Irish public sector bodies are prepared under Financial Reporting Standard (FRS) 102. In a small number of cases, International Financial Reporting Standards (IFRS) are used.

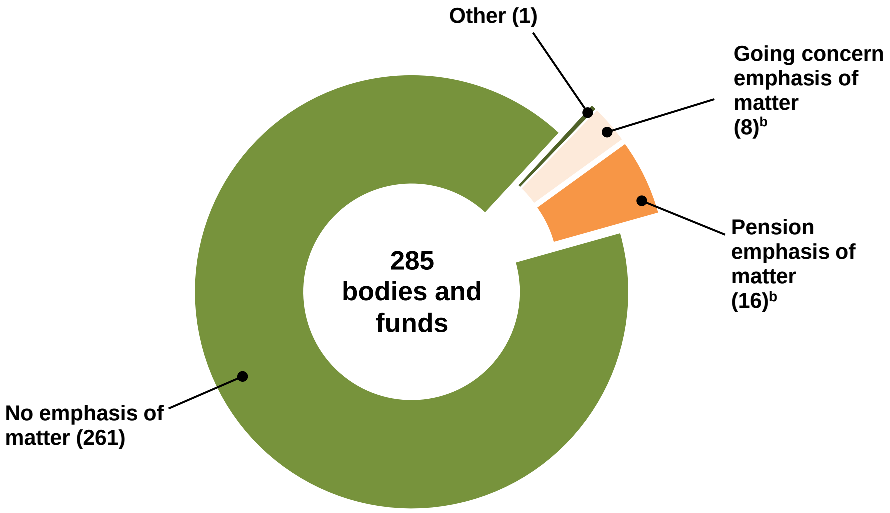
2 Auditing standards also provide for an adverse opinion and a disclaimer of opinion.

Figure 4.2 Opinions on financial statements — periods of account ending in 2017

Audit opinion



Emphasis of matter



Source: Office of the Comptroller and Auditor General

Notes: a At the date of finalisation of this report, there were two sets of financial statements for periods of account ending in 2017 not yet certified.

b The audit report for one body included emphasis of matter paragraphs in respect of both going concern and pension accounting.

Accounting for pensions

4.11 Under accrual accounting principles, pension liabilities are to be recognised on the statement of financial position in respect of the entitlements of current and former employees to receive future pension payments. Bodies that receive the bulk of their funding from the State generally account on the basis that State funding will be provided in the future to pay pensions, and consequently recognise this as an asset which matches their future pensions liability.

4.12 The reasons for the qualified audit opinions on thirteen sets of financial statements for periods of account ending in 2017 are as follows.

- In accordance with directions issued by the Minister for Health, eleven small health sector bodies account for the cost of staff retirement benefit entitlements only as they become payable. This approach is not in compliance with the pension accounting requirements under FRS 102.
- National Tourism Development Authority — unlike other state bodies, the Authority did not recognise a deferred funding asset for one of its three statutory pension schemes.
- University College Cork — UCC applied an incorrect accounting treatment in respect of an October 2017 written agreement between the University and the Higher Education Authority to share certain pension liabilities over a projected fifty-year period.

4.13 The situation regarding accounting for pensions is more complicated 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 State funding will be provided to meet any shortfall in resources to fund future pensions.

4.14 In those cases, while not qualifying his audit opinion, the Comptroller and Auditor General includes an emphasis of matter paragraph in his audit report drawing attention to the assumptions made. For accounting periods ending in 2017, an emphasis of matter paragraph is included on that basis in the audit reports for 15 sets of financial statements — ten of those are in the higher education sector, where bodies raise significant income through fees and charges.[1]

4.15 The remaining pension-related emphasis of matter referred to pension liabilities not being accounted for by the Financial Services and Pensions Ombudsman, as it had not yet been determined where the liabilities will be borne.

4.16 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.[2] That Department has indicated that a report of the working group is being drafted and is nearing completion.

1 In addition to a qualified audit opinion, as already outlined, the audit certificate for University College Cork included an emphasis of matter paragraph in relation to the recognition by the University of a deferred pension funding asset.

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

Other matters emphasised

4.17 Nine emphasis of matter paragraphs related to matters other than pension accounting. Eight of these drew attention to the basis for use of the ‘going concern’ principle in the preparation of the financial statements (see Figure 4.3).[1]

4.18 Financial statements are normally prepared on the basis that the body in question will continue in operation. This is referred to as the ‘going concern’ basis.

4.19 Under accounting standards, a body preparing financial statements 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 (e.g. where there are significant liabilities), the financial statements should disclose those matters and explain why 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 implications, if any, for the classification or carrying value of its assets and liabilities.

4.20 In the case of the National Gallery of Ireland, an emphasis of matter paragraph was included in the audit report to draw attention to a change in its accounting policy for heritage assets.

Figure 4.3 Going concern issues referred to in 2017 audit reports

Body	Matter referred to in audit report
Galway Mayo Institute of Technology **Institute of Technology Tralee** **Waterford Institute of Technology**	Attention is drawn to deficits incurred over a number of successive years, the accumulated deficit at the end of the 2016/2017 period, and the disclosure of the basis on which the governing body is satisfied that the Institute remains a going concern.
Dublin Greyhound and Sports Association Limited (a subsidiary of Bord na gCon)	Attention is drawn to the fact that the company has ceased trading, that assets were sold for €23 million in April 2018, and that the financial statements have not been prepared on the going concern basis.
National College of Art and Design	Attention is drawn to the deficit incurred for the year, the accumulated deficit at the end of the 2016/2017 period, and the disclosure of the basis on which the board is satisfied to prepare the financial statements on the going concern basis.
NAMA subsidiaries: National Asset Sarasota Limited Liability Company 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: 2017 financial statements for each of the relevant bodies.

1 Financial statements are normally prepared on the basis that the body in question will continue in operation. This is referred to as the ‘going concern’ basis.

Exception reporting

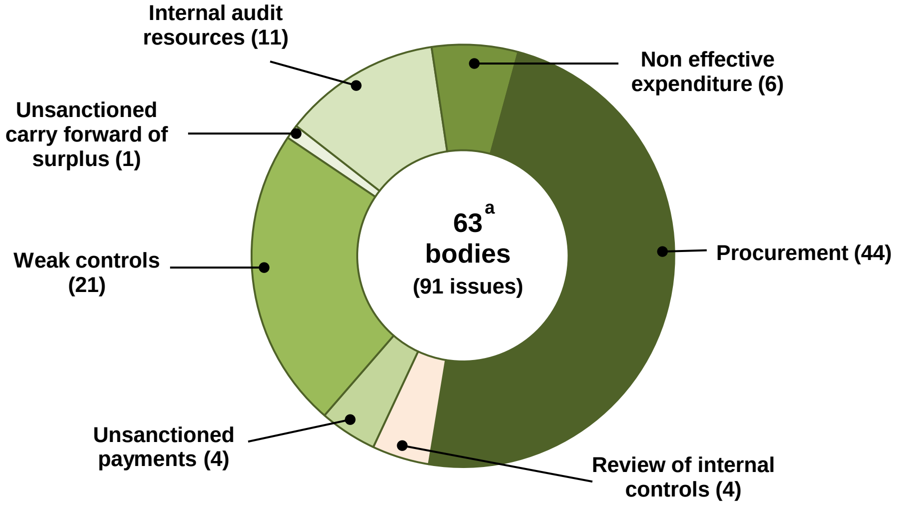
4.21 Certain matters identified during the audit, or disclosed in the financial statements, and which are considered to be of sufficient importance to draw to the attention of the Oireachtas are included in audit reports on an exception basis. Matters to be reported generally arise where

- the audit identified a material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them, or
- other information presented with the financial statements is materially inconsistent with those financial statements or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated, or
- all of the information and explanations required for the audit have not been received, or
- the accounting records were not sufficient to permit the financial statements to be readily and properly audited, or
- the financial statements are not in agreement with the accounting records, or
- there are material matters relating to the manner in which public business has been conducted.

4.22 The audit reports for 63 bodies made reference to such matters. Figure 4.4 sets out the types of matters reported — 91 matters were reported.

Figure 4.4 Matters reported by exception, 2017 audit reports

As in previous years, a significant number of public bodies procured goods and services without a competitive process ….



Source: Office of the Comptroller and Auditor General

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

4.23 The matters reported related to

- ***Procurement issues*** — generally, where a material level (€500,000 or more) of procurement of goods and services has occurred without appropriate competitive processes, having been followed.
- ***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.
- ***Review of internal controls*** — the required review of the effectiveness of the system of internal controls was either not carried out or was not done in a timely manner.
- ***Weak controls*** — identified weaknesses in controls over transactions or assets.
- ***Unsanctioned payments* —** payments where the appropriate approval sanction has not been obtained, including employment contracts.
- ***Unsanctioned carry forward of surplus* —** an entity carried forward a capital surplus from 2016, without obtaining the necessary sanction at ministerial level.
- ***Internal audit resources* —** inadequacies in internal audit were identified including; output, staffing levels and contribution to the control environment.

Conclusions

4.24 Financial reporting frameworks set the benchmark for the preparation of financial statements. The financial reporting frameworks that public bodies in Ireland are required to apply are usually provided for in law.

4.25 In 95% of cases, the financial statements in respect of 2017 activities presented to the Oireachtas by public bodies received an unqualified audit opinion. In all thirteen cases where a qualified audit opinion was issued, the basis for qualification related to pension accounting matters.

4.26 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.

4.27 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. Almost half of the issues arise from a material level of procurement without appropriate competitive processes. In the main, the remainder related to identified weaknesses in controls over transactions or assets and concerns around the adequacy of internal audit resources and/or outputs.

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	4 months	None[b]
Institutes of technology	Institutes of Technology Acts 1992 to 2006 and C&AG 2015 order	3 months	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.

Appendix B

Figure B.1 Overview of financial reporting frameworks

Accrual accounting	Transactions, assets and liabilities are recognised in the financial year to which they relate, even though actual cash flows may take place in a different period. Accrual accounts are generally prepared in line with the requirements of either FRS 102[a] or the international financial reporting standards (IFRS)[b]. While the majority of the financial statements of public bodies in Ireland are prepared using FRS 102, the National Asset Management Agency and its subsidiaries apply IFRS when preparing their financial statements.
Cash-based accounting	Transactions are recognised only when cash is received or paid. This basis is used by government departments, education and training boards, and Central Fund accounts. However, notes to cash-based accounts also include certain accrual information.
Hybrid	Some public bodies apply elements of both cash-based and accrual accounting. The Child and Family Agency (Tusla), the HSE and 13 other health agencies depart from the accruals method in a number of accounting areas, such as the treatment of pensions. In addition, Tusla and the HSE depart from the accruals method of accounting in respect of their treatment of depreciation, certain capital grants received from the State and certain claims administered by the State Claims Agency. This is done at the direction of the relevant Minister.

Source: Office of the Comptroller and Auditor General

Notes: a *FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland* is issued by the Financial Reporting Council.

b IFRS is a framework of standards issued by the International Accounting Standards Board with the objective of making financial statements more understandable and comparable across different jurisdictions.