



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

Annual Financial Audit Outline

Caerphilly County Borough Council

Audit year: 2011-12

Issued: March 2012

Status of document

This document has been prepared by PricewaterhouseCoopers LLP on behalf of the Appointed Auditor, Anthony Barrett.

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Annual Financial Audit Outline

Roles and responsibilities

1. This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides Caerphilly County Borough Council (the Council) with an outline of the financial audit work required for the 2011-12 financial statements.
2. Under the provisions of the Public Audit (Wales) Act 2004 the Auditor General for Wales (Auditor General) is responsible for appointing external auditors (Appointed Auditors) to local government bodies.
3. As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council, satisfying myself that the accounts:
 - give a true and fair view of the Council's financial position;
 - comply with all relevant legislative requirements; and
 - have been prepared in accordance with proper accounting practices.
4. I am also required to:
 - satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Council of its responsibility to:
 - put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
 - maintain proper accounting records;
 - prepare a Statement of Accounts in accordance with relevant requirements; and
 - establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.
6. The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key requirements of the Auditor General and the Appointed Auditor are set out in [Appendix 1](#).
8. A separate document, *the Auditor General's Regulatory Programme for Performance Audit*, will be issued setting out the work to be delivered by the Auditor General.

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9. The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.

The audit approach

The audit team

10. Information regarding the financial audit team is provided in [Appendix 2](#).

Audit of financial statements

11. Internal controls are designed, implemented and maintained by the Council to address identified business risks that threaten the achievement of an audited body's objectives regarding:
- the reliability of its financial reporting;
 - the effectiveness and efficiency of its operations; and
 - its compliance with applicable laws and regulations.
12. On behalf of the Appointed Auditor, PricewaterhouseCoopers will:
- assess the effectiveness of high level internal controls and key system level internal controls in preventing and detecting material errors in the accounting statements; and
 - develop substantive procedures to respond to specific risks of material misstatement in the accounting statements.
13. The Appointed Auditor does not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopts the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in the accounting statements and related notes, that is, those that might result in a reader of the accounts being misled.
14. The levels at which we judge such misstatements to be material will be reported in the audit findings report to the Audit Committee prior to completion of the audit.

Significant risks of material misstatement in the accounting statements

15. **Exhibit 1** provides information regarding the main operational and financial risks faced by the Council that could impact on our audit. These are the main risks that have been identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. Changes to the audit may be required if any new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Summary of main audit risks and proposed responses

Significant audit risks

Significant risks	Action proposed
Financial statements risks	
<p>Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>We will review the appropriateness of journals processed during the year. We will also look at any management estimates and consider if they are subject to bias.</p> <p>We will review capital accounting entries to ensure that they are in accordance with appropriate guidance.</p> <p>We will gain an understanding of and evaluate the business rationale for any significant unusual transactions identified.</p> <p>Our audit procedures are also planned to include an unpredictable element that varies year on year.</p>
<p>Income and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in the public sector.</p>	<p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the CIPFA Code.</p> <p>We will review the appropriateness of journals processed during the year.</p> <p>We will also look at any management estimates and consider if they are subject to bias.</p>

Significant risks	Action proposed
<p>Valuation of property, plant and equipment</p> <p>The Council is required to ensure that PPE assets held on the Balance Sheet are valued sufficiently regularly to ensure that the carrying amount is not materially different to the fair value of these assets at the year end. In the prior year, a substantial amount of officer and auditor time was spent on establishing an appropriate valuation and auditing it.</p>	<p>We will consider the Council's proposed approach to valuation of its PPE at 31 March 2012 and consider whether it is sufficient and appropriate. We will also test the accuracy of the valuation calculations on a sample basis.</p>

Other audit risks

Risks	Action proposed
Financial statements risks	
<p>Accounting estimates</p> <p>The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimation uncertainty associated with accounting estimates. The degree of estimation uncertainty affects, in turn, the <i>risks of material misstatement</i> of accounting estimates, including their susceptibility to unintentional or intentional management bias. The accounts contain a number of estimated including:</p> <ul style="list-style-type: none"> • Icelandic Bank impairments • Equal pay/Single Status provisions 	<p>We will review significant accounting estimates prepared by management and consider whether they are supported by sufficient appropriate evidence.</p>
<p>Depreciation</p> <p>Distinct and significant elements of property, plant and equipment assets are required to be separately identified and depreciated as separable components as they may have different useful lives.</p> <p>This will affect the level of depreciation charged in the accounts. If separate components are not identified then this may lead to errors in the depreciation charge in the accounts.</p>	<p>We will determine the extent to which the Council has componentised its assets and consider the implications for the accounts.</p>

Use of resources

16. To discharge our responsibilities regarding the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources, we shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
 - the audited body's system of internal control, as reported in its governance statement and my report thereon;
 - the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009, certification of claims and returns and data matching exercises;
 - the results of the work of other external review bodies where relevant to our responsibilities; and
 - any other work that addresses matters not covered by the above, and which we consider necessary to discharge our responsibilities.

Reporting

17. The Code of Audit Practice issued by the Auditor General requires Appointed Auditors to comply with relevant auditing and ethical standards, which require formal reporting at various stages during the audit to those charged with governance.
18. In particular, auditors must report:
- relationships that may bear on the auditor's independence;
 - audit planning information; and
 - certain matters to those charged with governance (as distinct from management) before they give an opinion on the financial statements.
19. Appendix 1 highlights the key elements of the audit engagement at the Council, and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.
20. This document provides information regarding the planning of the audit.
21. Reports will be submitted to the Audit Committee and where necessary to the Cabinet or the Council in a timely manner, prior to the completion of audit.
22. We will provide reports, or other output as agreed. The key milestones are set out in [Exhibit 2](#).

Exhibit 2: Key milestones

Planned output	Planned start date	Report finalised
Annual Financial Audit Outline	March 2012	April 2012
Audit of Financial Statements (ISA260) Report	July 2012	September 2012

Planned output	Planned start date	Report finalised
Audit Opinion on the 2011-12 financial statements	July 2012	September 2012
Annual Audit Letter	October 2012	November 2012

Audit fee

23. The proposed fee for 2011-12 financial audit work is £220,000 (plus VAT) and will be charged in equal instalments between November 2011 and October 2012. This fee is in line with the Auditor General's fees letter and is based on the zero-based fee model for financial audit.
24. Overall, the 2011-12 financial audit fee represents no increase on the equivalent element of the Appointed Auditors' responsibilities included as part of the 2010-11 fee.
25. In previous years, there have been few formal objections to the Council's financial statements. However, we do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time has been included within the fee to deal with minor queries, as part of the overall management of the audit.
26. Any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work.
27. The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken. Grant and return certification work is charged on a daily basis in line with the skill related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.
28. Although grant work fluctuates from year to year, based on past experience and initial indications of changes in grant schemes and conditions, we estimate that the total fee for grant work will be between £90,000 and £110,000.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at the Council
Engagement activities		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of Appointed Auditors are outlined above and in Appendix 1 . The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors and engagement leads	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement lead.	Details of the Appointed Auditor and the Engagement Lead are provided in Appendix 2 of this document.
'Non-statutory' work	The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited bodies.	No 'non-statutory' work has been requested or is proposed.
Limitations on audit work	I am required to advise you of any limitations on the work that I propose to undertake, including limitations imposed by management.	No limitations have been placed on the work that I propose to undertake.
Ethical considerations		
Independence	Appointed Auditors are required to consider the following: <ul style="list-style-type: none"> • threats to auditor independence (including litigation); • family and other personal relationships; • long association with the audited body, based on the Wales Audit Office rotation of audits policy; and • contentious or difficult issues. 	I can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and I have complied with the Wales Audit Office rotation policy.

Key elements	Requirements	Position at the Council
Ethical considerations (continued)		
Engagement performance	Engagement leads need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for all audits, and the Engagement Lead has established appropriate review levels based on the experience of the staff undertaking the audit work.

Appendix 2

Financial audit team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	029 2032 0500	anthony.barrett@wao.gov.uk
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