



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

# Annual Financial Audit Outline

## **Caerphilly County Borough Council**

**Audit year:** 2012-13

**Issued:** March 2013

**Document reference:** XXXA2012

# Status of document

---

This document has been prepared for the internal use of Caerphilly County Borough Council as part of work to be performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

To the maximum extent permitted by law, the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor do not accept any liability for losses incurred by any member, officer or other employee in their individual capacity, or any third party arising from use of this document.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties.

In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@wao.gov.uk](mailto:infoofficer@wao.gov.uk).

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

# Contents

---

---

## Annual Financial Audit Outline

---

Roles and responsibilities	4
----------------------------	---

---

The audit approach	5
--------------------	---

---

Reporting	8
-----------	---

---

Audit fee	8
-----------	---

---

## Appendices

---

Key elements of the audit engagement	10
--------------------------------------	----

---

Financial audit team	12
----------------------	----

---

# 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 2012-13 financial statements.
2. Under the provisions of the Public Audit (Wales) Act 2004, the Auditor General is responsible for appointing external auditors (appointed auditors) to local government bodies. The Appointed Auditor is Anthony Barrett, [Assistant Auditor General at the Wales Audit Office](#). He is supported by PricewaterhouseCoopers LLP (PwC). Lynn Pamment from PwC is the Engagement Lead.
3. The Appointed Auditor is required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council. This involves giving an opinion on whether the accounts give a true and fair view of the Council's financial position and of its income and expenditure for the year. The act also requires the Appointed Auditor to satisfy himself of these things:
  - that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
  - that the accounts comply with the requirements of all other statutory provisions applicable to them;
  - that proper practices have been observed in the compilation of the accounts; and
  - that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
4. He is also required to 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:
  - establish systems of internal control 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 and related documents, to ask the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key elements of the audit 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 under the Local Government (Wales) Measure 2009.

- 
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, PwC will:
- understand and evaluate the system of internal controls designed to prevent and detect material errors in the accounting system;
  - review work undertaken by Internal Audit, in order to inform the approach to the audit of the Statement of Accounts; and
  - develop substantive procedures to respond to 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. Therefore in planning and conducting the audit, the Appointed Auditor seeks 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 such misstatements are judged to be material will be reported in my report to the Audit Committee prior to completion of the audit.

## Risks of material misstatement in the accounting statements

15. **Exhibit 1** provides information regarding the significant operational and financial risks faced by the Council that could affect the audit. These are the significant audit 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 plan may be required if any new risks emerge. No changes will be made to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

### Exhibit 1: Summary of significant audit risks and proposed responses

Risks	Action proposed
<b>Control environment risks</b>	
<p><b>Management override of controls</b></p> <p>In any organisation, management may be in a position to override the financial controls that are in place. Auditing standards require us to consider the possibility of management override of controls as a significant risk area.</p>	<p>Using a risk based approach we will review the appropriateness of a sample of journals processed during the year by reference to the supporting documentation. We will also look at any management estimates and consider if they are subject to bias.</p> <p>We also include an unpredictable element of audit work that varies year on year.</p>
<b>Financial systems risks</b>	
<p><b>Income and Non Pay Expenditure Recognition</b></p> <p>Fraud risk as a result of misstatement of income and expenditure is regarded as a significant risk in the public sector.</p>	<p>We will review the appropriateness of a sample of journals processed to income and non-pay nominal ledger codes during the year. We will also look at the application of relevant accounting policies to ensure that they are in compliance with auditing standards.</p> <p>We will perform substantive testing procedures on a sample basis to ensure that income and expenditure has been accounted for in the correct period to which it relates and to verify whether transactions are bona fide business transactions.</p>

In addition, we have identified an elevated risk in the area of PPE valuations; although this is not considered significant, the nature of the area requires specific consideration due to the materiality of the balance and the level of subjectivity involved.

Risks	Action proposed
<b>Preparation of the accounts risks</b>	
<p><b>Valuation of Property, Plant and Equipment (PPE) and Investment Properties</b></p> <p>The Council is required to ensure that PPE and Investment Property 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.</p> <p>As PPE and Investment Properties are large material balances on the balance sheet and the valuation is subject to significant Officer judgement, PPE and Investment Property valuation represents a significant risk.</p>	<p>We will consider the Council's proposed approach to the valuation of its PPE and Investment Properties at 31 March 2013 and consider whether it is sufficient and appropriate. We will also test the accuracy of the valuation calculations on a sample basis.</p>

## Use of resources

16. To discharge his responsibilities regarding the arrangements that the Council has established to secure economy, efficiency and effectiveness in its use of resources, the Appointed Auditor shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
  - the Council's system of internal control, as reported in the Annual Governance Statement and the 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 are considered necessary to discharge the Appointed Auditor's responsibilities.

---

## Reporting

17. The Code of Audit Practice issued by the Auditor General requires appointed auditors to comply with relevant auditing and ethical standards. These standards require formal reporting at various stages during the audit to those charged with governance.
18. In particular, auditors must report:
  - relationships that may affect 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, PwC or other audit staff.
20. This document provides information regarding the planning of the audit.
21. I will submit reports to the Audit Committee, and where necessary, to the Cabinet/Council in a timely manner.
22. I will provide other reports or 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 2013	April 2013
Audit of Financial Statements (ISA 260) Report	July 2013	September 2013
Audit Opinion on the 2012-13 Financial Statements	July 2013	September 2013
Annual Audit Letter	October 2013	November 2013

## Audit fee

23. The proposed fee for 2012-13 financial audit work is £220,000 (plus VAT) and will be charged in equal instalments between November 2012 and October 2013. 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 2012-13 financial audit fee represents a 4 per cent decrease on the equivalent element of the appointed auditors' responsibilities included as part of my 2011-12 fee, £228,595. The latter fee included an amount of £8,595 in respect of additional audit work required in the area of Property, Plant and Equipment.
25. In previous years, there have been a number of formal objections to the Council's financial statements. I do also 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. There will also be an additional cost associated with following up the Appointed Auditor's recent report in the public interest. This will be quantified once the Council has formally considered the report and responded to the Appointed Auditor's recommendations.

- 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, but will be discussed with the Council prior to undertaking 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 certification work fluctuates from year to year, based on past experience and initial indications of changes in grant schemes and conditions, I estimate that the total fee for grant work will be in the range of £90,000 to £110,000.

# Appendix 1

## Key elements of the audit engagement

Key elements	Requirements	Position at the Council
<b>Engagement activities</b>		
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 this appendix. The full Statement of Responsibilities can be found at: <a href="http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf">http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf</a>
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 <a href="#">Appendix 2</a> of this document.
Discretionary work by agreement	The Auditor General has set out clear criteria for approval of any discretionary work requested by audited bodies.	No discretionary work has been performed.
<b>Ethical considerations</b>		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> <li>• threats to auditor independence (including litigation);</li> <li>• family and other personal relationships;</li> <li>• long association with the audited body (see Wales Audit Office rotation of audits policy); and</li> <li>• contentious or difficult issues.</li> </ul>	I can confirm that there are no known threats to my independence as the Appointed Auditor or to the independence of staff or contractors working for me, and I have complied with the Wales Audit Office rotation policy.
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 the audit, 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/ 012 4452 5970	Anthony.barrett@wao.gov.uk
Lynn Pamment	Financial Audit Engagement Lead	029 2080 2390	<a href="mailto:lynn.pamment@uk.pwc.com">lynn.pamment@uk.pwc.com</a>
Ian Davies	Audit Senior Manager	029 20 802358	<a href="mailto:ian.j.davies@uk.pwc.com">ian.j.davies@uk.pwc.com</a>
Sophie Wint	Audit Manager	07718 340612	<a href="mailto:sophie.wint@uk.pwc.com">sophie.wint@uk.pwc.com</a>



WALES AUDIT OFFICE  

---

SWYDDFA ARCHWILIO CYMRU

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: [info@wao.gov.uk](mailto:info@wao.gov.uk)

E-bost: [info@wao.gov.uk](mailto:info@wao.gov.uk)

Website: [www.wao.gov.uk](http://www.wao.gov.uk)

Gwefan: [www.wao.gov.uk](http://www.wao.gov.uk)