



2016 Audit Plan

Caerphilly County Borough Council

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2016 Audit Plan

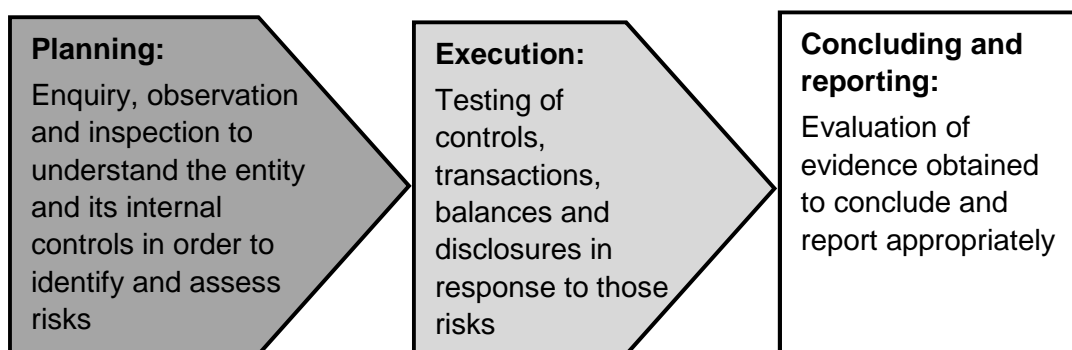
Summary

1. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
2. The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
3. There have been no limitations imposed on me in planning the scope of this audit.
4. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Financial audit

5. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
6. I also consider whether or not Caerphilly County Borough Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
7. [Appendix 1](#) sets out my responsibilities in full.
8. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: My audit approach



9. The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them.

Exhibit 2: Financial audit risks

Financial audit risk	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
Operating Expenses – Creditors related to core activities understated or not recorded in the correct period.	<p>My audit team will:</p> <ul style="list-style-type: none"> • document our understanding of the controls operating in the creditors system; • perform a walkthrough to confirm that the controls identified are in operation; • test for completeness of operating expenses including agreeing to source documentation and reviewing invoices received after the year end; • obtain an understanding of the accruals process; and • testing for unrecorded liabilities, including review of payments made after the year end.

Financial audit risk	Proposed audit response
Employee Remuneration and benefit obligations and expenses understated	<p>My audit team will:</p> <ul style="list-style-type: none"> • document our understanding of the controls operating in the payroll system; • perform a walkthrough to confirm that the controls identified are in operation; • undertake analysis of trends and relationships to identify any anomalous areas for further investigation; • review and test the reconciliation of payroll system to the general ledger; and • perform substantive testing of staff and officer payroll payments, ensuring that payments are made in accordance with the individual's contract of employment. • review payments made to former employees to ensure all costs are accurately reflected in the notes to the accounts.
Valuation of property, plant and equipment	<p>My audit team:</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of any management experts used; • review of the instructions issued to valuation experts and the scope of their work; • discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions where appropriate; • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding; and • testing of revaluations made during the year to ensure they are input correctly into the council's asset register and correctly reflected in the financial statements.

10. There is also a presumed risk of material misstatement due to fraud in revenue recognition and as such should be treated as a significant risk. I have rebutted this presumption in accordance with ISA 240.26-27.
11. I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.

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12. For reporting purposes, I will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them.
13. My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
14. In addition to my responsibilities in respect of the audit of Caerphilly County Borough Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about Caerphilly County Borough Council to support preparation of Whole of Government Accounts.

Certification of grant claims and returns

15. I plan to issue a separate report highlighting the key issues identified from my audits of the 2013-14 and 2014-15 claims.
16. My audit fee for this work is set out in [Exhibit 4](#).

Performance audit

17. The components of my performance audit work are shown in [Exhibit 3](#) and have been designed in order to help deliver the high-level objectives set out in our 2013-2016 corporate strategy (www.audit.wales/publication/wales-audit-office-corporate-strategy-2013-2016).

Exhibit 3: Components of my performance audit work



18. Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies will be required to adopt the principle of sustainable development from April 2016, and the draft Local Government (Wales) Bill proposes fewer councils and a renewed performance framework. The Minister for Public Services has publicly stated that he would like to see a refreshed audit regime in advance of the legislative timetable with a view to supporting change. In January this year the minister advised me of a substantial reduction in the grant that subsidises my local government performance audit work under the Measure.
19. However, for 2016-17 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.
20. In spring 2016 I engaged in a consultation with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
 - providing assurance on the governance and stewardship of public money and assets;
 - offering insight on the extent to which resources are used wisely in meeting people's needs; and
 - identifying and promoting ways by which the provision of public services may be improved.
21. Taking all these factors into consideration, I am presently unable to be specific about my programme of performance audit work in local government. I am working through the practicalities of designing an appropriate programme of work, and examining the

implications of the reduction in grant funding with a view to ensuring, as far as I am able, that there is little adverse impact on local authorities through fees.

22. As soon as practical, I will write to confirm my 2016-17 programme of work.
23. The performance audit projects included in last year's Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 2](#).

Fee, audit team and timetable

Fee

24. The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2016 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
25. Your estimated fee for 2016 is set out in [Exhibit 4](#). This figure represents a 0 per cent increase compared to the fee set out in the 2015 audit plan.

Exhibit 4: Audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Financial audit work ¹	£250,000	£250,000
Performance audit work ²	£111,700	£111,748
Total fee	£361,700	£361,748
Grant certification work ³	Scope of work to be confirmed	£86,321

Notes:

¹ Payable November 2015 to October 2016.

² Payable April 2016 to March 2017.

³ Payable as work is undertaken.

26. Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with Caerphilly County Borough Council.
27. Further information on my fee scales and fee setting can be found on the Wales Audit Office website at: www.audit.wales/about-us/fee-scales-and-fee-setting.

¹ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

Audit team

28. The main members of my team, together with their contact details, are summarised in Exhibit 5.

Exhibit 5: My team

Name	Role	Contact number	E-mail address
Alan Morris	Engagement Lead – Performance Audit & Engagement Director	02920 320514	alan.morris@audit.wales
Barrie Morris	Engagement Lead – Financial Audit	01173 57708	barrie.morris@uk.gt.com
Laura Hallez	Financial Audit Manager	02920 347558	laura.a.hallez@uk.gt.com
Grace Hawkins	Financial Audit Team Leader	02920 347542	grace.e.hawkins@uk.gt.com
Non Jenkins	Performance Audit Manager	02920 320595	non.jenkins@audit.wales
Sara-Jane Byrne	Performance Audit Lead	07786 111385	sara-jane.byrne@audit.wales

29. I can confirm that my team members are all independent of Caerphilly County Borough Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

30. I will provide reports, or other outputs as agreed, to Caerphilly County Borough Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 6](#).

Exhibit 6: Timetable

Planned output	Work undertaken	Report finalised
2016 Audit Plan	February – March 2016	April 2016
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements• Financial Accounts Memorandum	January 2016 & July 2016	September 2016
Performance work: I am presently unable to be specific about my programme of performance audit work in local government	April 2016 – March 2017	As soon as practical, I will write to confirm my 2016-17 programme of work
2017 Audit Plan	January – February 2017	March 2017

* Subject to timely clearance of draft findings with Caerphilly County Borough Council.

Future developments to my audit work

31. The Well-being of Future Generations (Wales) Act 2015 (the Act) requires me to have undertaken an examination in each of the public bodies specified within the Act and to have provided a report to the National Assembly, by 2020.
32. As referred to in [paragraph 22](#), I will be consulting on my proposed response to the Act in spring 2016. This consultation will feature a commitment to engage and work collaboratively with public bodies in developing an audit approach which is rigorous, meaningful and proportionate. I propose using 2016-17 as a transition year during which my teams work with a limited number of public bodies to develop and test my approach.
33. As we confirm our audit approaches and respond to continuing consultation from the Welsh Government, we will be talking to audited bodies about the implications for their fees from 2017-18 onwards and will be exploring alternative funding models with the next National Assembly's Finance Committee.

Appendix 1

Respective responsibilities

Financial audit

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- Their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- The consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether Caerphilly County Borough Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- Caerphilly County Borough Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect Caerphilly County Borough Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within Caerphilly County Borough Council from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

Appendix 2

Performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
Follow up of the Special Inspection and previous audit work relating to: <ul style="list-style-type: none">• Human Resources and workforce planning• Internal Audit• Self-evaluation• Scrutiny	Fieldwork complete	Report is being drafted
Service review of Waste Management	Fieldwork in May 2016	Report to be drafted in June 2016
Annual Improvement Report	Drafting	This will be issued to the Council June/July

Appendix 3

National value-for-money studies

Caerphilly County Borough Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are funded by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

The table below covers all of the value-for-money studies work currently programmed. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Topic	Publication timeframe
Welsh Government acquisition and ownership of Cardiff Airport	Published January 2016
The development of Natural Resources Wales	Published February 2016
Operating theatres	Published March 2016
Impact of private practice on NHS provision	Published February 2016
Wales Life Sciences Investment Fund	Published February 2016
Welsh Government responses to audit recommendations (memorandum for the Public Accounts Committee)	Spring 2016
Coastal flood and erosion risk management	Spring 2016
Rail services	Spring 2016
Governance of the National Library of Wales	Spring 2016
Welsh Government oversight of further education institutions' finances and delivery	Autumn 2016

Topic	Publication timeframe
Public procurement (including development of the National Procurement Service)	Winter 2016
Early intervention and behaviour change	Spring/summer 2017 ²
Welsh Government interventions in local government	TBC ³

I have been considering over recent months the inclusion in my programme of a number of new studies on:

- The NHS Wales Informatics Service
- Capital investment in schools (21st Century schools programme) and school places
- Further education finances
- Waste management
- The Supporting People programme
- Access to public services for people whose first language may not be English or Welsh and those who may be disadvantaged without access to specialist interpretation services

With the exception of the further education study, referred to in the table above, firm plans for these new studies are yet to be confirmed, although initial scoping work is underway.

² My programme of good practice work includes a project that will aim to explore the range of behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. The project will include a range of engagement events and the development of a community of practice to share learning and experience. I anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and it would not be prepared until the first half of 2017.

³ Plans for this work have been under review in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales, and also to consider the implications for the work of plans for local government reform.

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