

## 2021 Audit Plan – Caerphilly County Borough Council

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# 2021 Audit Plan

## About this document

- 1 This document sets out the work I plan to undertake during 2021 to discharge my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

## My duties

- 2 I complete work each year to meet the following duties.

## Audit of financial statements

- 3 Each year I audit Caerphilly County Borough Council's (the Council's) financial statements to make sure that public money is being properly accounted for.

## Value for money

- 4 The Council has to put in place arrangements to get value for money for the resources it uses, and I have to be satisfied that it has done this.

## Continuous improvement

- 5 Under the Local Government (Wales) Measure 2009 (the Measure) the Council has to put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General has to assess whether the Council is likely to (or has) met these requirements. Some requirements of the Measure will cease during 2021-22 due to changes in legislation arising from the Local Government and Elections (Wales) Act 2021. However, I anticipate that during 2021-22 I will still be required to audit the Council's published assessment of its performance that covers the 2020-21 year.

## Sustainable development principle

- 6 Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

## Impact of COVID-19

- 7 The COVID-19 pandemic continues to have a significant impact across the United Kingdom and on the work of public sector organisations. As in 2020, it is likely to significantly impact on the preparation of the 2020-21 financial statements and my financial audit and performance audit work.
- 8 Recent developments in relation to a vaccine programme indicate that the Welsh Government's restrictions on movement, and anticipated sickness absence levels, are expected to ease through 2021. However, I recognise that there remains significant uncertainty and I understand that many councils may not be able to prepare financial statements in line with the timetable set out in the Accounts and Audit (Wales) Regulations 2014. As well as the delivery of my statutory responsibilities as the Auditor General, my priority is to ensure the health, safety and wellbeing of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.
- 9 Audit Wales staff will continue to work flexibly to deliver the audit work set out in this plan. In response to the government advice and subsequent restrictions, we will continue to work remotely, building on the arrangements made in 2020, until such time that it is safe to resume on-site activities. I remain committed to ensuring that the work of Audit Wales staff will not impede the vital activities that public bodies need to do to respond to ongoing challenges presented by the COVID-19 pandemic.
- 10 Consequently, while this audit plan sets out an initial timetable for the completion of my audit work, the ongoing uncertainties around the impact of COVID-19 on the sector mean that some timings may need to be revisited. My audit team will discuss any amendments required to the proposed timetable with the Council as the 2021 position becomes clearer.

## Audit of financial statements

- 11 It is my responsibility to issue a certificate and report on the financial statements. This includes:
  - a) an opinion on the on the 'truth and fairness' of the Council's financial statements for the financial year ended 31 March 2021; and
  - b) an assessment as to whether the Council's Narrative Report and Annual Governance Statement is prepared in line with the CIPFA Code and relevant guidance and is consistent with the financial statements and with my knowledge of the Council.

- 12 In addition to my responsibilities for auditing the Council's financial statements, I also have responsibility for:
- c) if relevant once the thresholds<sup>1</sup> for audit are known for 2021-22, certifying a return to the Welsh Government which provides information about the Council to support preparation of the UK's Whole of Government Account;
  - d) responding to questions and objections about the financial statements from local electors (additional fees will be charged for this work, if necessary);
  - e) the independent examination of Blackwood Miners' Institute charity; and
  - f) the certification of six grant claims and returns, as set out in **Exhibit 4**.
- 13 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, which means those that might result in a reader of the financial statements 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.
- 14 Any misstatements below a trivial level (set at 5% of materiality) I judge as not requiring consideration by those charged with governance and therefore will not report them.
- 15 I can confirm that there have been no limitations imposed on me in planning the scope of this audit.
- 16 I will also report by exception on a number of matters which are set out in more detail in my Statement of Responsibilities, along with further information about my work.

## Audit of financial statements risks

- 17 The following table sets out the significant risks that I have currently identified for the audit of your financial statements. You should note that my auditing planning is currently ongoing.

<sup>1</sup> Set annually by HM Treasury and the National Audit Office.

**Exhibit 1: financial statement audit risks**

This table summarises the key financial audit risks that I have identified at the planning stage of the audit.

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p><b>Management override</b></p> <p>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>	<p>I will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business; and</li> <li>• undertake any additional procedures to address any specific risks of management override which are not addressed by the mandatory work above.</li> </ul>
<p><b>Property, Plant and Equipment (PPE) – Accuracy of the Fixed Asset Register</b></p> <p>Per last year’s Audit of the Accounts Report, there were a high number of corrected misstatements regarding the existence (following duplication and disposals), ownership and valuation of PPE. If the Council does not implement my audit recommendations, there is a risk of material misstatement in the 2020-21 financial statements.</p>	<p>I will:</p> <ul style="list-style-type: none"> <li>• substantively test assets to ensure they exist and are owned by the Council;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register.</li> </ul>

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p><b>Other recommendations in last year's Audit of the Accounts Report</b>  Last year, I reported a significant number of recommendations in respect of the financial statements, in areas such as the cashflow statement, creditors, debtors, provisions and PPE (as detailed above).</p>	<p>I will evaluate and test, where necessary, the Council's progress in addressing my recommendations.</p>
<p><b>Impact of COVID-19 – disclosures</b>  Last year, two 'Emphasis of matter' paragraphs were in my audit report, drawing attention to material valuation uncertainties in the financial statements in respect of the valuation of:</p> <ul style="list-style-type: none"> <li>• land and buildings (including Council Dwellings); and</li> <li>• certain pension fund assets.</li> </ul> <p>These uncertainties arose from the COVID-19 pandemic, and the audit opinion was modified in respect of these matters. However, with the pandemic continuing it is possible that similar disclosures may be required this year.</p>	<p>I will review the valuer's valuation reports and the actuary's pension report and consider the impact on my audit of any reported material uncertainties.</p>



Audit risk	Proposed audit response
<b>Significant risks</b>	
<p><b>Impact of COVID-19 – quality of the financial statements</b></p> <p>The COVID-19 national emergency continues and the pressures on staff resource and of remote working may impact on the preparation, audit and publication of financial statements. There is a risk that the quality of the financial statements and supporting working papers, around estimates (eg annual leave provision) and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>I will discuss your closedown process and quality monitoring arrangements with the financial statements preparation team and monitor the financial statements preparation process. We will help to identify areas where there may be gaps in arrangements.</p>
<p><b>Impact of COVID-19 – funding streams</b></p> <p>The COVID-19 pandemic will have a significant impact on the risks of material misstatement and the shape and approach to my audit. The Welsh Government has made available various funding streams to the Council. In some cases, these monies provide financial support to the Council itself. In other cases, the funds have been administered by the Council, making payments to third parties on behalf of the Welsh Government.</p> <p>The amounts involved are material to the financial statements and there is a risk of incorrect accounting treatment for COVID-19 funding ie principal or agency arrangement.</p>	<p>I will review the funding streams received from the Welsh Government and confirm that the accounting treatment is appropriate.</p>

Audit risk	Proposed audit response
<b>Area of audit attention</b>	
<p><b>Cardiff Capital Region City Deal</b>  City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The Cardiff Capital Region City Deal (the City Deal) involves ten councils.</p> <p>The councils have established a joint committee (the Regional Cabinet) to oversee delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure over the course of 20 years. This significant programme will have financial, governance and delivery risks that need to be managed. There will be a number of accounting issues to address including the potential consolidation of the joint committee's financial statements, if they are material.</p>	<p>Liaising closely with the external auditors of the other councils, my audit team will:</p> <ul style="list-style-type: none"> <li>• monitor progress with the City Deal Project and carry out early work as necessary to assess the existing and proposed financial and governance arrangements; and</li> <li>• consider the work undertaken by HM Treasury to scrutinise the effectiveness of the region's governance arrangements.</li> </ul>
<p><b>McCloud judgement</b>  In 2015, the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.</p> <p>In December 2018, the Court of Appeal ruled that the 'transitional protection' arrangements amounted to unlawful discrimination.</p> <p>Consultations on proposed remedies for the Local Government, Police and Fire pensions schemes closed in October 2020. The final remedy is expected to be published during 2021.</p> <p>The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.</p>	<p>I will review the provision previously made in relation to the McCloud judgement and monitor progress on the development of proposals for a remedy to be applied in the Local Government pension schemes.</p>

Audit risk	Proposed audit response
<b>Area of audit attention</b>	
<p><b>Sensitive disclosures</b></p> <p>I judge some of the disclosures in the financial statements, such as related parties and the remuneration of senior officers and councillors, to be material by nature, with a far lower level of materiality. These disclosures are therefore inherently more prone to material misstatement.</p>	<p>I will enhance my examination of all areas that I determine to be material by nature, to ensure that they are complete and accurate.</p>

## Other matters

18 There are two further matters on which my audit team will undertake early work in preparation for the 2021-22 audit.

### Exhibit 2: Other matters

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Other matters	
<p>CIPFA/LASAAC has once again deferred the introduction of IFRS 16 until 1 April 2022. The Council will however need to undertake considerable work to identify leases, and the COVID-19 pandemic may pose implementation risks.</p>	<p>I will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.</p>
<p>The potential need to audit the Council's financial return in respect of the UK's Whole of Government Account (WGA), as referred to in <b>paragraph 12</b>.</p>	<p>If necessary, I will examine the 2020-21 WGA return in accordance with the requirements of HM Treasury and the National Audit Office.</p>

## Other matters

The Local Government and Elections Act includes provision for the establishment of a Corporate Joint Committee (CJC) to deliver services currently provided by the Council.

I will undertake an early review of the preparations that the Council is making for accounting arrangements related to the transfer of services to the CJC.

## Performance audit

- 19 In addition to my Audit of Financial Statements, I also carry out a programme of performance audit work to discharge my duties as Auditor General as set out on **page 4** in relation to value for money and sustainable development.
- 20 In response to the pandemic, I have adopted a flexible approach to my performance audit work both in terms of topic coverage and methodology. My work on recovery planning, COVID-19 learning and my assurance and risk assessment work are examples of this. This has enabled me to respond to the fast-moving external environment and provide more real-time feedback in a range of formats.
- 21 For 2021-22, I intend to build on this approach to help enable my work to be responsive and timely, and where possible to share learning more quickly. As part of this approach, I anticipate that a significant proportion of my local performance audit programme will be delivered through the Assurance and Risk Assessment Project, that will be ongoing throughout the year.
- 22 Given the high degree of commonality in the risks facing councils at this time I also intend to deliver a number of thematic projects examining risks common to all councils.
- 23 I have consulted public bodies and other stakeholders on how I will approach my duties in respect of the Well-being of Future Generations (Wales) Act 2015. This consultation was extended due to the pandemic.
- 24 In my consultation I have set out and sought views on proposals to:
- a) continue to undertake specific examinations to assess the setting of well-being objectives and how steps are being taken to meet them, respectively;
  - b) integrate the examination of steps alongside value for money studies and local audit work, wherever possible; and
  - c) strengthen and expand the co-ordination of work with the Future Generations Commissioner.
- 25 I have written to the 44 public bodies designated under the Act setting out the results of the consultation and how I intend to approach this work over the reporting period 2020-2025.

- 26 In view of the above factors, I intend to retain a high degree of flexibility in my local performance audit programme at the Council and will continue to update the Council as the audit programme changes.
- 27 For 2021-22 this work is set out below.

### Exhibit 3: Performance Audit Programme 2021-22

This table summarises the performance audit programme for 2021-22

Performance audit programme	Brief description
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations	Further details to follow.
Improvement reporting audit	Audit of discharge of duty to publish an assessment of performance.
Assurance and Risk Assessment	<p>Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.</p> <p>For the Council the project is likely to focus on:</p> <ul style="list-style-type: none"> <li>• financial position;</li> <li>• self-assessment arrangements;</li> <li>• recovery planning;</li> <li>• implications of the Local Government and Elections (Wales) Act; and</li> <li>• carbon reduction plans.</li> </ul>
Thematic work – Springing Forward – Examining the building blocks for a sustainable future	As the world moves forward, learning from the global pandemic, this review looks at how effectively councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.

Performance audit programme	Brief description
Local risk-based project	Further updates to be provided to the Audit Committee following further discussion with the Council.

## Certification of grant claims and returns

28 I have been requested to undertake certification work on the Council's grant claims and returns as set out in **Exhibit 4**.

### Exhibit 4: summary of grant claim certification work

This table summarises my anticipated 2020-21 programme of grant-claim certification work.

Name of scheme	2019-20 expenditure (£)	Significant issues identified
Housing Benefit Subsidy	52,248,390	Recurring error in the calculation of earned income.
Non-Domestic Rates	37,187,891	None.
Teachers' Pensions	17,795,025	One minor amendment made.
Pooled Budget – Gwent Frailty	16,457,801	None.
Section 34 Learning Disability and Other	1,739,344	Cell entry omitted from claim entry for Other.
Section 34 Wanless	934,850	None.

## Statutory audit functions

- 29 In addition to the audit of the financial statements, I have statutory responsibilities to receive questions and objections to the financial statements from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- a) Section 30 Inspection of documents and questions at audit; and
  - b) Section 31 Right to make objections at audit.
- 30 As this work is reactive, I have made no allowance in the fee table below. If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

- 31 My fees and planned timescales for completion of the audit are based on the following assumptions:
- a) the signed financial statements submitted for audit are provided by the agreed date, which takes into account the impact of COVID-19, and to the quality standard expected (having been subject to a robust quality-assurance review);
  - b) information provided to support the financial statements is in accordance with the agreed audit deliverables document;
  - c) appropriate access is provided to enable my audit team to deliver the audit in an efficient manner;
  - d) all appropriate officials will be available during the audit;
  - e) 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
  - f) Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
- 32 I will be liaising with the Head of Internal Audit to establish the extent of the work undertaken for 2020-21 and its impact on our audit approach, especially if there is a significant shortfall against the planned work.

## Fee

33 Your estimated fee for 2021 is set out in **Exhibit 5**, alongside last year's fee.

### Exhibit 5: audit fee

This table sets out the proposed audit fee for 2021, by area of audit work, alongside the actual audit fee for last year.

Audit area	2021 fee estimate (£) <sup>2</sup>	2020 fee estimate (£)	2020 actual fee (£)
Financial audit accounts work <sup>3</sup>	235,000	250,000	367,000
Performance audit work <sup>4</sup>	104,700	104,700	104,700
Grant certification work <sup>5</sup>	34,000	45,000	33,619
<b>Total fee</b>	<b>373,700</b>	<b>399,700</b>	<b>505,319</b>

34 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 the Council. Further information on my [fee scales and fee setting](#) can be found on our website.

35 If I receive questions or objections, I will discuss potential audit cost at the time.

## Audit team

36 The main members of my team, together with their contact details, are summarised in **Exhibit 6**.

<sup>2</sup> Notes: The fees shown in this document are exclusive of VAT, which is not charged to you.

<sup>3</sup> Payable November 2020 to October 2021.

<sup>4</sup> Payable April 2021 to March 2022.

<sup>5</sup> Payable as work is undertaken.



## Exhibit 6: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Huw Rees	Engagement Director and Engagement Lead – Performance Audit	029 2032 0599	<a href="mailto:Huw.Rees@audit.wales">Huw.Rees@audit.wales</a>
Anthony Veale	Engagement Lead – Financial Audit	029 2032 0585	<a href="mailto:Anthony.Veale@audit.wales">Anthony.Veale@audit.wales</a>
Mark Jones	Audit Manager (Financial Audit)	029 2032 0631	<a href="mailto:Mark.Jones@audit.wales">Mark.Jones@audit.wales</a>
Rhodri Davies	Audit Lead (Financial Audit)	029 2032 0637	<a href="mailto:Rhodri.Davies@audit.wales">Rhodri.Davies@audit.wales</a>
Colin Davies	Audit Manager (Performance Audit)	029 2032 0666	<a href="mailto:Colin.Davies@audit.wales">Colin.Davies@audit.wales</a>
Gareth Jones	Audit Lead (Performance Audit)	029 2032 0548	<a href="mailto:Gareth.Jones@audit.wales">Gareth.Jones@audit.wales</a>

## Timetable

- 37 The key milestones for the work set out in this plan are shown in **Exhibit 7**. As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.

## Exhibit 7: Audit timetable

Planned output	Work undertaken	Report finalised
2021 Audit Plan	January to March 2021	April 2021
<b>Audit of Financial statements work:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Audit of Financial Statements Addendum Report</li> </ul>	July to September 2021	September 2021 October 2021 <sup>6</sup> October 2021
<b>Performance audit work:</b> <ul style="list-style-type: none"> <li>• Annual Audit Summary</li> <li>• Well-being of Future Generations</li> <li>• Assurance and risk assessment</li> <li>• Springing Forward</li> <li>• Improvement reporting audit</li> <li>• Local risk-based project</li> </ul>	Timescales for individual projects will be discussed with you and detailed within the specific project briefings produced for each study.	
<b>Grants certification work:</b> <ul style="list-style-type: none"> <li>• Housing Benefit</li> <li>• Non-Domestic Rates</li> <li>• Teachers' Pensions Return</li> <li>• Section 33 NHS (Wales) Act 2006 Pooled Budgets</li> <li>• Two Section 34/194 NHS (Wales) Act 2006 Money Transfers Returns</li> </ul>	October to December 2021	Separate reports for each grant, with various deadlines.

<sup>6</sup> Full Council is scheduled to consider the audit of financial statements, and our audit report, on 14 October 2021.

Planned output	Work undertaken	Report finalised
Annual Audit Summary	N/A	December 2021
2022 Audit Plan	January to March 2022	April 2022

- 38 I can confirm that, except for one member of the audit team, my team members are all independent of the Council and your officers.
- 39 The exception relates to a team member's parent being one the Council's headteachers. My Compliance Department has reviewed this circumstance and concluded that there should be a partial work restriction. Therefore, the team member will not undertake, or otherwise become involved in, the audit of the local education authority within the Council, including any audit of payroll. I have updated my audit plan and work allocations to safeguard this independence issue.



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We welcome correspondence and telephone calls in Welsh and English.  
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