

# Caerphilly County Borough Council – Detailed Audit Plan 2023

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

# About Audit Wales

## Our aims and ambitions

### Assure



the people of Wales that public money is well managed

### Explain



how public money is being used to meet people's needs

### Inspire



and empower the Welsh public sector to improve



Fully exploit our unique perspective, expertise and depth of insight



Strengthen our position as an authoritative, trusted and independent voice



Increase our visibility, influence and relevance



Be a model organisation for the public sector in Wales and beyond

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# Introduction

Further to my Outline Audit Plan that my audit team presented to the Council's Governance and Audit Committee on 18 April, this Audit Plan:

- specifies my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice;
- sets out the work my team intends undertaking to address the audit risks identified and other key areas of focus during 2023; and
- sets out my estimated audit fee, details of my audit team and key dates for delivering my audit team's activities and planned outputs.



**Adrian Crompton**  
Auditor General for  
Wales

## My audit responsibilities

I complete work each year to meet the following duties:

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

## Audit of financial statements

I am required to issue a certificate and report on your financial statements which includes an opinion on their 'truth and fairness' and an assessment as to whether the Narrative Report and Annual Governance Statement is prepared in line with the CIPFA Code and relevant guidance and is consistent with your financial statements and my knowledge of the Council. As part of the audit I have responsibility for responding to questions and objections about the Council's financial statements from local electors (an additional fee would be charged for this work, if necessary).

In addition to my responsibilities for auditing the Council's financial statements, I also audit the accounts of the Blackwood Arts Centre Charity; and six of the Council's grant returns that require certification.

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 financial statements being misled. The levels at which I judge such misstatements to be material is set out later in this plan.

I will also report by exception on a number of matters which are set out in more detail in our [Statement of Responsibilities](#).

There have been no limitations imposed on me in planning the scope of this audit.

## Performance audit work

I carry out a programme of performance audit work to discharge my duties<sup>1</sup> as Auditor General in relation to value for money and sustainable development.

<sup>1</sup> When we undertake audit work under our statutory powers and duties we may collect information from public bodies that contains some personal data. Our general audit fair-processing-notice explains what we do with personal data, and how you can contact our Data Protection Officer.

My local performance audit programme will continue to be delivered through a combination of an assurance and risk assessment project, bespoke local projects and thematic projects examining risks common to all councils.

The majority of my performance audit work is conducted using INTOSAI auditing standards. The International Organisation of Supreme Audit Institutions is a global umbrella organisation for the performance audit community. It is a non-governmental organisation with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations.

# Your audit at a glance



## My financial statements audit will concentrate on your risks and other areas of focus

My audit planning has identified the following risks:

Significant financial statement risks include:

- management override;
- outdated carrying values for property assets;
- the completeness and accuracy of related party disclosures; and
- any risks that arise from the failure to implement my past audit recommendations.



## My performance audit will include:

- Assurance and Risk Assessment
- Thematic reviews:
  - financial sustainability of local government
  - commissioning and contract management; and
- Local work: Counter fraud.



## Materiality

Materiality	£7.2 million
Reporting threshold	£360,000



# Financial statements materiality

My aim is to identify and correct material misstatements, which are those that might cause the user of the financial statements into being misled.

My planning materiality is calculated using:

- the 2021-22 gross expenditure of £722 million; and
- A materiality percentage of 1%.

I report to those charged with governance any misstatements above a trivial level (set at 5% of materiality, being £360,000).



## Areas of specific interest

There are some areas of the financial statements that may be of more importance to the user of the financial statements and we have set a lower materiality level for:

- the remuneration report (and associated expenditure such as exit payments), with materiality a level of £1,000 (and potentially lower if an error results in an incorrect remuneration financial-banding); and
- related party disclosures, with a materiality level of £5,000 (for related party disclosures associated with positions and interests held by members and senior officers).

# Significant financial statements risks

While I have commenced some planning work, I will be undertaking most of it in the autumn, which my audit team has discussed with officers. The risks set out in **Exhibit 1** are therefore drawn from my knowledge from my past audit work, and any requirements that are new to 2022-23. Later this year I will provide you with an update on any additional risks that I identify.

Significant risks are identified risks of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk or those which are to be treated as a significant risk in accordance with the requirements of other ISAs. The ISAs require us to focus more attention on these significant risks. This work will include my consideration of the risk of material misstatement due to fraud in expenditure and income.

## Exhibit 1: significant financial statement risks

Significant risk	Our planned response
<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 240.32-33].</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 bias; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p>Accounting for property, plant and equipment and intangible assets continues to be one of the most challenging areas of the financial statements.</p> <p>The high inflation during 2022-23 has increased uncertainties over the value of fixed assets. This is particularly relevant for the disclosed carrying value of the property assets as at 31 March 2023, compared to their actual current value at that date. This risk is higher where assets have not been valued as at 31 March 2023.</p>	<p>I will review the Council's asset valuation programme to establish when individual groups of assets were valued; and I will seek to confirm that valuations carried out earlier than as at 31 March 2023 are not materially different to the current value of assets as at the year-end.</p>

<p>Last year, I reported nine recommendations in respect of my audit of the financial statements.</p> <p>The previous year I had raised 11 recommendations, and at the close of last year's audit the Council had implemented seven of them.</p> <p>Therefore, this year I will be reviewing the Council's progress with 13 of my recommendations.</p> <p>Any recommendations that management has not addressed could represent a significant risk to the 2022-23 financial statements.</p>	<p>I will review management's actions against each recommendation, which will inform my assessment of the key risks and what they mean for my audit.</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 prone to material misstatement.</p>	<p>As for past audits 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>

# Financial statements audit timetable

I set out below key dates for delivery of my financial statements audit work and planned outputs.

## Exhibit 2: key dates for delivery of planned outputs

Planned output	Work undertaken	Report finalised
2023 Audit Plan	I am aiming to undertake my core audit work between October to January.	August 2023 (see my introductory comments to <b>Exhibit 1</b> ).
Audit of financial statements work: <ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on the Financial Statements</li></ul>	October to January  February 2024  February 2024	February 2024  February 2024  February 2024

# Planned performance audit work

I set out below details of my performance audit work and key dates for delivery of planned outputs.

## Exhibit 3: key dates for delivery of planned outputs

<b>Assurance and risk assessment</b>	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 and acting in accordance with the sustainable development principle.	April 2023-March 2024
<b>Thematic review – financial sustainability of local government</b>	A review of councils’ financial sustainability including a focus on the actions, plans and arrangements to bridge funding gaps and address financial pressures over the medium term.	To be confirmed.
<b>Thematic review – commissioning and contract management</b>	A review focusing on how councils’ arrangements for commissioning, and contract management apply value for money considerations and the sustainable development principle.	To be confirmed.
<b>Local work - Counter fraud</b>	To assess the Council’s progress to address the recommendations made in the Auditor General for Wales’ report <a href="#">‘Raising Our Game’ Tackling Fraud in Wales</a> July, 2020.	To be confirmed.

We will provide updates on the performance audit programme through our regular updates to Council Officers and the Council’s Governance and Audit Committee.

# Statutory audit functions

## Statutory audit functions

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:

- Section 30 Inspection of documents and questions at audit; and
- Section 31 Right to make objections at audit.

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 and audit team

In January 2023 I published the [fee scheme](#) for the 2023-24 year as approved by the Senedd Finance Committee. My fee rates for 2023-24 have increased by 4.8% for inflationary pressures. In addition, my financial audit fee has a further increase of 10.2% for the impact of the revised auditing standard ISA 315 on my financial audit approach. More details of the revised auditing standard and what it means for the audit I undertake is set out in **Appendix 1**.

My fees and planned timescales for completion of the audit are based on the following assumptions:

- the signed financial statements are provided to me in accordance with a timescale to be agreed;
- the financial statements are prepared to the quality expected and have been subject to a robust quality assurance review;
- all supporting information is provided to me alongside the signed financial statements;
- all appropriate staff 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. If I do receive questions or objections, I will discuss potential audit fees at the time.

I estimate that your total audit fee will be £438,017 which is detailed in **Exhibit 4**. The estimate is an 11% increase on last year's fee estimate. I wrote to the Council in March 2023 to explain the reasons for the increase, and I have asked officers to include my correspondence within Governance and Audit Committee's papers.

#### Exhibit 4: audit fee

This table sets out the proposed audit fee for 2023, by area of audit work, alongside the estimated audit fee for last year.

Audit area	Proposed fee (£) <sup>2</sup>	Estimated fee last year (£)
Audit of financial statements <sup>3</sup>	276,153	240,060
Performance audit work <sup>4</sup>	113,554	108,136
Grant certification work	44,750	42,700
Other financial audit work <sup>5</sup>	3,560	3,400
<b>Total</b>	<b>438,017</b>	<b>394,296</b>

My 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.

<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 2022 to October 2023.

<sup>4</sup> Payable April 2023 to March 2024.

<sup>5</sup> This fee relates to the Blackwood Arts Centre Charity.



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

**Exhibit 5: my local audit team**

<b>Name</b>	<b>Role</b>	<b>Contact number</b>	<b>E-mail address</b>
Anthony Veale	Engagement Director	02920 320585	<a href="mailto:anthony.veales@audit.wales">anthony.veales@audit.wales</a>
Mark Jones	Audit Manager (Financial Audit)	02920 320631	<a href="mailto:mark.jones@audit.wales">mark.jones@audit.wales</a>
Rhodri Davies	Audit Lead (Financial Audit)	02920 320500	<a href="mailto:rhodri.davies@audit.wales">rhodri.davies@audit.wales</a>
Sara-Jane Byrne	Audit Manager (Performance Audit)	07786 111385	<a href="mailto:sara-jane.byrne@audit.wales">sara-jane.byrne@audit.wales</a>
Ian Phillips	Audit Lead (Performance Audit)	07811 757163	<a href="mailto:ian.phillips@audit.wales">ian.phillips@audit.wales</a>

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

# Audit quality

Our commitment to audit quality in Audit Wales is absolute. We believe that audit quality is about getting things right first time.

We use a three lines of assurance model to demonstrate how we achieve this. We have established an Audit Quality Committee to co-ordinate and oversee those arrangements. We subject our work to independent scrutiny by QAD\* and our Chair, acts as a link to our Board on audit quality. For more information see our [Audit Quality Report 2022](#).

## Our People



The first line of assurance is formed by our staff and management who are individually and collectively responsible for achieving the standards of audit quality to which we aspire.

- Selection of right team
- Use of specialists
- Supervisions and review

## Arrangements for achieving audit quality



The second line of assurance is formed by the policies, tools, learning & development, guidance, and leadership we provide to our staff to support them in achieving those standards of audit quality.

- Audit platform
- Ethics
- Guidance
- Culture
- Learning and development
- Leadership
- Technical support

## Independent assurance



The third line of assurance is formed by those activities that provide independent assurance over the effectiveness of the first two lines of assurance.

- EQCRs
- Themed reviews
- Cold reviews
- Root cause analysis
- Peer review
- Audit Quality Committee
- External monitoring

\* QAD is the quality monitoring arm of ICAEW.

# Appendix 1

## The key changes to ISA315 and the potential impact on your organisation

Key change	Potential impact on your organisation
<b>More detailed and extensive risk identification and assessment procedures</b>	<p>Your finance team and others in your organisation may receive a greater number of enquiries from our audit teams at the planning stage of the audit. Requests for information may include:</p> <ul style="list-style-type: none"><li>• information on your organisation's business model and how it integrates the use of information technology (IT);</li><li>• information about your organisation's risk assessment process and how your organisation monitors the system of internal control;</li><li>• more detailed information on how transactions are initiated, recorded, processed, and reported. This may include access to supporting documentation such as policy and procedure manuals; and</li><li>• more detailed discussions with your organisation to support the audit team's assessment of inherent risk.</li></ul>
<b>Obtaining an enhanced understanding of your organisation's environment, particularly in relation to IT</b>	<p>Your organisation may receive more enquiries to assist the audit team in understanding the IT environment. This may include information on:</p> <ul style="list-style-type: none"><li>• IT applications relevant to financial reporting;</li><li>• the supporting IT infrastructure (e.g. the network, databases);</li><li>• IT processes (e.g. managing program changes, IT operations); and</li><li>• the IT personnel involved in the IT processes.</li></ul> <p>Audit teams may need to test the general IT controls and this may require obtaining more detailed audit evidence on the operation of IT controls within your organisation.</p> <p>On some audits, our audit teams may involve IT audit specialists to assist with their work. Our IT auditors may need to engage with members of your IT team who have not previously been involved in the audit process.</p>

Key change	Potential impact on your organisation
<p><b>Enhanced requirements relating to exercising professional scepticism</b></p>	<p>Our audit teams may make additional inquiries if they identify information which appears to contradict what they have already learned in the audit.</p>
<p><b>Risk assessments are scalable depending on the nature and complexity of the audited body</b></p>	<p>The audit team's expectations regarding the formality of your organisation's policies, procedures, processes, and systems will depend on the complexity of your organisation.</p>
<p><b>Audit teams may make greater use of technology in the performance of their audit</b></p>	<p>Our audit teams may make use of automated tools and techniques such as data analytics when performing their audit. Our teams may request different information or information in a different format from previous audits so that they can perform their audit procedures.</p>



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Audit Wales

1 Capital Quarter

Tyndall Street

Cardiff CF10 4BZ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

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