

2020 Audit Plan – Caerphilly County Borough Council

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Summary report

Our duties

- 1 We complete work each year to meet the following duties.

Audit of financial statements

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

Value for money

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

Continuous improvement

- 4 The Council also has to put in place arrangements to make continuous improvements and we also check if it has done this.

Sustainable development principle

- 5 Public bodies need to make sure that when making decisions they consider the impact they could have on people living in Wales now and in the future. We have to assess the extent to which they are doing this.

Impact of COVID-19

- 6 The COVID-19 national emergency has had an unprecedented impact on the UK and will significantly impact on local authorities' preparation of the 2019-20 accounts and our audit work, both financial audit and performance audit.
- 7 Due to the UK Government's restrictions on movement and anticipated sickness absence levels, we understand that many local authorities will not be able to prepare accounts in line with the timetable set out in the Accounts and Audit (Wales) Regulations 2014. As well as the delivery of the Auditor General's statutory responsibilities, our priority is to ensure the health, safety and wellbeing of Audit Wales staff, their families and those of our partners elsewhere in public service at this incredibly challenging time.
- 8 In response to government advice and subsequent restrictions, we have ceased all onsite work at audited bodies and our own offices. Audit Wales staff are working from home and we will continue to make whatever progress we can whilst working and engaging with you remotely.
- 9 Consequently, this audit plan does not include any details in relation to completion of our audit work. We will discuss a timetable with the authority once the current

national emergency situation is over and the authority is in a position to prepare its accounts.

- 10 We commit to ensuring that our audit work will not have a detrimental impact on you at a time when public bodies are stretched and focused on more important matters.

Audit of financial statements

- 11 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their 'truth and fairness':
- we plan to give an opinion on the Council's financial statements.
 - assess whether the Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. We also review whether they were are consistent with the financial statements prepared by the Council and with our knowledge of the Council.
- 12 In addition to our responsibilities for auditing the Council's financial statements, we also have responsibility for:
- certifying a return to the Welsh Government which provides information about the Council to support the preparation of Whole of Government Accounts;
 - responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary); and
 - the certification of a number of grant claims and returns by various dates as agreed with the funding bodies.
- 13 There have been no limitations imposed on me in planning the scope of this audit.
- 14 Further information about our work is provided in our Statement of Responsibilities, which is available on our website (www.audit.wales).

Financial Statement Audit Risks

- 15 The following table sets out the significant risks I have identified for the audit of the Council at the planning stage of the audit.

Exhibit 1: financial statement audit risks

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

Audit risk	Proposed audit response
Significant risks	
<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>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.
<p>There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27].</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks at the Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for the Council.</p>

Audit risk	Proposed audit response
Significant risks	
<p>Valuation of land and buildings</p> <ul style="list-style-type: none"> The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. 	<p>My audit team will:</p> <ul style="list-style-type: none"> evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluate the competence, capabilities and objectivity of the valuation expert; write to the valuer to confirm the basis on which the valuation was carried out; challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; test revaluations made during the year to see if they had been input correctly into the Council's asset register; and evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to the current value at the year-end.
<p>Impact of COVID-19</p> <p>The COVID-19 national emergency will see a significant delay in the preparation and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates 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>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>

Audit risk	Proposed audit response
Other areas of audit attention	
Introduction of IFRS 16 Leases has been deferred until 2021-22. There is considerable work required to identify leases, and the COVID-19 national emergency may pose implementation risks.	My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.

Performance audit

16 In addition to our Audit of Financial Statements we also carry out a programme of performance audit work to discharge the Auditor General's duties set out on **page 4** in relation to value for money, continuous improvement and sustainable development. For 2020-21 this work is set out below.

Exhibit 2: Performance Audit Programme 2020-21

This table summarises the performance audit programme for 2020-21

Performance audit programme	Brief description
Improvement audit and assessment work including improvement planning and reporting audit	Audit of discharge of duty to publish an improvement plan, and to publish an assessment of performance.
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examination	A project common to all local councils that will focus on the theme of 'prevention'.
Assurance and Risk Assessment	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.

Performance audit programme	Brief description
Financial Sustainability	A project common to all local councils that will assess financial sustainability in the light of current and anticipated future challenges building on work undertaken during 2019-20.
Local risk-based work including follow up reviews	To be confirmed in due course.

Certification of grant claims and returns

17 I have been requested to undertake certification work on the Council's grant claims and returns as set out in **Exhibit 3**.

Exhibit 3: summary of grant claim certification work

This table summarises my 2019-20 programme of grant claim certification work

Name of scheme	Period of scheme	Total/annual expenditure	Significant issues identified
Housing Benefit Subsidy	2019-20	£57,973,221	<ul style="list-style-type: none"> • A number of issues were identified, which resulted in a qualification, including: <ul style="list-style-type: none"> – Rent Allowances – Rent Rebates – Total Expenditure (Benefit Granted) – this is an error that has also been identified in prior years, where the average weekly income was calculated incorrectly, this led to an extrapolated overstatement of £464.09 with a corresponding understatement in cell 113.

Name of scheme	Period of scheme	Total/annual expenditure	Significant issues identified
Housing Benefit Subsidy	2019-20	£57,973,221	<ul style="list-style-type: none"> • A number of issues were identified, which resulted in a qualification, including: <ul style="list-style-type: none"> – Rent Rebates – Total Expenditure (Benefit Granted) – state retirement pension was uprated at a standard rate of 3%, however not all elements had risen by 3% therefore the error resulted in underpaid benefit. – Modified Schemes Subsidy – Expenditure due to voluntary disregarding of War Disablement or War Widow’s Pension – testing identified that the authority miscalculated and overstated the claimant’s pension resulting in an underpayment of benefit.
Section 33 NHS (Wales) Act 2006 Pooled Budgets – Gwent Frailty	2019-20	£16,451,708	Claim was qualified due to late certification by RFO.

Name of scheme	Period of scheme	Total/annual expenditure	Significant issues identified
Section 34/194 NHS (Wales) Act 2006 Money Transfers – Section 28a Annual Voucher – Wanless	2019-20	£1,739,344	N/A
Section 34/194 NHS (Wales) Act 2006 Money Transfers – Section 28a Annual Voucher – Learning Disabilities	2019-20	£934,850	N/A
Non-Domestic Rates return	2019-20	£43,951,545	N/A
Teachers' Pension return	2019-20	£14,867,994	An error in the data collection spreadsheet caused several variances between percentage tiers. This resulted in amendments to the claim form, however this had no impact on the total of the return.

Fee, audit team and timetable

- 18 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with a timescale to be agreed following the end of the COVID-19 national emergency, to the quality expected and have been subject to a robust quality assurance review;
 - information provided to support the financial statements is in accordance with the agreed audit deliverables document;

- 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;
- Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements; and
- set out the extent to which you intend to rely on Internal Audit's work and where reliance is to be placed on the work of other auditors, specialists, etc.

19 If I do receive questions or objections, I will discuss potential audit fees at the time.

Fee

20 Your estimated fee for 2020 is set out in **Exhibit 4**. There have been some small changes to my fees rates for 2019, however, my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed to you. This represents a 0.2% decrease compared to your actual 2019 fee.

Exhibit 4: audit fee

This table sets out the proposed audit fee for 2020, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Audit of accounts ²	250,000	250,000
Performance audit work ³	104,700	104,815
Grant certification work ⁴	45,000	45,845
Total fee	399,700	400,660

21 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.

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

¹ Notes: The fees shown in this document are exclusive of VAT, which is not charged to you.

² Payable November 2019 to October 2020.

³ Payable April 2020 to March 2021.

⁴ Payable as work is undertaken.

Audit team

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

Exhibit 5: 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	huw.rees@audit.wales
Barrie Morris	Engagement Lead – Financial Audit	011 7305 7708	barrie.morris@uk.gt.com
Grace Hawkins	Audit Manager (Financial Audit)	029 2034 7542	grace.e.hawkins@uk.gt.com
Oscar Edwards	Audit Lead (Financial Audit)	029 2034 7607	oscar.r.edwards@uk.gt.com
Non Jenkins	Audit Manager (Performance Audit)	029 2032 0595	Non.Jenkins@audit.wales
Gareth Jones	Audit Lead (Performance Audit)	029 2032 0548	Gareth.Jones@audit.wales

Timetable

- 24 We will continue to undertake such remote work as is possible during the COVID-19 national emergency. However, as set out above, we will not be in a position to agree a timetable with you until the COVID-19 national emergency has passed.
- 25 Therefore, we will report on a timetable for our audit work in due course.
- 26 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.



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