

## 2022 Audit Plan – Caerphilly County Borough Council

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# 2022 Audit Plan

## About this document

- 1 This document sets out the work I plan to undertake during 2022 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.

## Sustainable development principle

- 5 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.

## Impact of COVID-19

- 6 The COVID-19 pandemic has had an unprecedented impact on the United Kingdom and the work of public sector organisations.
- 7 While Wales is currently at Coronavirus Alert Level 0, Audit Wales will continue to monitor the position and I will discuss the implications of any changes in the position with your officers.

## Audit of financial statements

- 8 It is my responsibility to issue a certificate and report on the financial statements. This responsibility includes:
  - an opinion on the 'truth and fairness' of the Council's financial statements for the financial year ended 31 March 2022; and
  - 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.
- 9 In addition to my responsibility for auditing the Council's financial statements, I also have responsibility for:
  - responding to questions and objections about the financial statements from local electors (if necessary, additional fees would be charged for this work);
  - if relevant once the threshold<sup>1</sup> for audit are known for 2021-22, certifying a return to the Welsh Government that provides accounting information about the Council to support preparation of the UK's Whole of Government Account;
  - the independent examination of the Blackwood Arts Centre charity; and
  - the certification of six grant claims and returns, as set out in **Exhibit 5**.
- 10 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 will be reported to the Governance and Audit Committee, and full Council, prior to completion of the audit.
- 11 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.
- 12 I can confirm that there have been no limitations imposed on me in planning the scope of this audit.

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

13 I will also report by exception on a number of matters which are set out in more detail in our Statement of Responsibilities, along with further information about my work.

## Audit of financial statements risks

14 The following table sets out the significant risks that I have identified, to date, for the audit of your financial statements. You should note that my assessment of risk continues throughout the audit.

### Exhibit 1: financial statement audit risks

The following table sets out the main risks that my audit planning and testing have identified, to date, for the audit of your financial statements.

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p><b>Management override</b> 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>There is the risk of material misstatement due to fraud in expenditure, which I am treating as a significant risk. This risk has increased due the high level of support provided by the Council to support people and businesses during the COVID-19</p>	<p>My work will include:</p> <ul style="list-style-type: none"> <li>• the results of my substantive expenditure testing and whether they highlight any fraud concerns that require my evaluation and possibly extended testing;</li> </ul>

Audit risk	Proposed audit response
<p>pandemic. An example of the increased fraud risk is that recipients of the Council's financial support, intentionally do not use it for the purposes intended.</p>	<ul style="list-style-type: none"> <li>• the evaluation of the strength of the Council's formal considerations and representations to me, about its fraud risks and the actions taken or planned; and</li> <li>• the consideration of any fraud risks that arise from my wider work programme, which could be relevant to the Council and need further audit work.</li> </ul>
<p>I audit the disclosure of related party transactions and balances to a far lower level of materiality. Last year I identified the non-declaration of numerous related party interests, and in turn the omission of material disclosures within the financial statements. They were corrected within the financial statements because of my audit examinations. While officers are implementing last year's audit recommendation, there remains the risk that material omissions arise again.</p>	<p>I will verify that signed declarations have been received from all members and senior officers. I will check that finance officers have assessed all the declarations and that the financial statements disclose the relevant transactions and balances. My examinations also include other means of testing, such as my review of Companies House records using data analytics.</p>
<p>Although COVID-19 restrictions have now been removed, there have been ongoing pressures on staff resource and of remote working that may impact on the preparation, audit, and publication of the financial statements. There is a risk that the quality of the financial statements and supporting working papers, for example around estimates and valuations, may be compromised, leading to an increased incidence of errors. These factors could also affect the Council's quality monitoring arrangements.</p>	<p>I will discuss your closedown process and quality monitoring arrangements with the officers, and I will help to identify areas where there may be gaps in arrangements.</p>

Audit risk	Proposed audit response
<p>COVID-19 continues to have a significant impact on the risks of material misstatement and the approach to my audit. For 2021-22 the Welsh Government continued to provide various funding streams to the Council. These monies provide financial support to the Council itself, or they have been administered by the Council to make payments to third parties on behalf of the Welsh Government.</p> <p>Payments have been made via numerous schemes over the course of 2021-22 and the amounts involved are material to the financial statements.</p> <p>Examples of the audit risks include:</p> <ul style="list-style-type: none"> <li>• the incorrect accounting treatment for COVID-19 funding, as principal or agency arrangements;</li> <li>• the potential for material uncertainty within valuations;</li> <li>• an increased risk of fraud (see earlier risk); and</li> <li>• the estimation of the year-end annual leave liability.</li> </ul>	<p>I will examine all material areas of the financial statements that relate to, or are affected by, COVID-19.</p>
<p>Accounting for property, plant and equipment and intangible assets continued to be one of the most challenging areas of the financial statements and can give rise to many of my audit findings.</p> <p>In light of the COVID-19 restrictions that were in place throughout 2021-22, and uncertainties over market values for assets since the start of the pandemic, there is a risk that the carrying value of assets reported in the financial statements may be materially different to the current value of assets as at 31 March 2022.</p>	<p>I will examine the Council's asset valuation programme to establish when individual groups of assets were valued and seek to confirm that valuations carried out earlier than as at 31 March 2022 are not materially different to the current value of assets as at the year-end.</p>



Audit risk	Proposed audit response
<b>Other risks</b>	
<p>'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 consider, including the potential consolidation of the joint committee's financial statements, which is far more likely for 2021-22.</p>	<p>Liaising closely with the external auditors of the other councils, I will monitor progress with the City Deal Project and carry out early work as necessary to assess the existing and proposed financial accounting and governance arrangements.</p>
<p>I audit the disclosure of senior office emoluments to a far lower level of materiality. They are therefore inherently more prone to material misstatement.</p>	<p>I will examine all the senior officer disclosures to verify that they are materially accurate, and that the disclosures are complete. .</p>
<p>Last year I reported eleven recommendations in respect of the financial statements. The Council's management accepted all of them and agreed actions and dates for improvement.</p>	<p>I will review the Council's progress in addressing my recommendations, and report to you the progress made as part of this year's audit.</p> <p>This review will inform my ongoing assessment of the key risks.</p>

## Performance audit

- 15 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 in paragraphs 4 and 5 in relation to value for money and sustainable development.
- 16 In response to the pandemic, I adopted a flexible approach to my performance audit work both in terms of topic coverage and methodology. This enabled me to respond to the fast-moving external environment and provide more real-time feedback in a range of formats.
- 17 For 2022-23, I intend to continue 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 continue to be delivered through the Assurance and Risk Assessment Project that will be ongoing throughout the year.
- 18 Given the high degree of commonality in the risks facing councils I also intend to deliver a number of thematic projects examining risks common to all councils.
- 19 During 2020-21, I 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 from 2020-2025.
- 20 In March 2021, I wrote to the public bodies designated under the Act setting out my intentions, which include a). carrying out specific examinations of how public bodies have set their well-being objectives and b). integrating my sustainable development principle examinations of steps to meet well-being objectives with my national and local audit programmes.
- 21 My auditors are liaising with the Council to agree the most appropriate time to examine the setting of well-being objectives.
- 22 The examination of steps to meet well-being objectives will be conducted as part of work set out in this audit plan and successive audit plans, leading up to my statutory report under the Act in 2025.
- 23 For 2022-23 my performance audit work at the Council is set out below.

## Exhibit 2: Performance Audit Programme 2022-23

This table summarises the performance audit programme for 2022-23

Performance audit programme	Brief description
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 and acting in accordance with the sustainable development principle</p> <p>At the Council the project is likely to focus in particular on:</p> <ul style="list-style-type: none"> <li>• financial position</li> <li>• capital programme management</li> <li>• use of performance information – with a focus on service user feedback and outcomes</li> <li>• Setting of well-being objectives – TBC</li> </ul>
Thematic review - unscheduled care	<p>I intend to undertake a cross-sector review focusing on the flow of patients out of hospital. This review will consider how the Council is working with its partners to address the risks associated with the provision of social care to support hospital discharge, as well as prevent hospital admission. The work will also consider what steps are being taken to provide medium to longer-term solutions.</p>
Thematic review (tbc)	<p>To be confirmed following the consultation referred to in paragraph 24 below.</p>
Local risk-based project – Waste Management	<p>Further updates to be provided to the Governance and Audit Committee</p>

Performance audit programme	Brief description
	following further discussion with the Council

- 24 In March 2022, I published a [consultation](#) inviting views to inform my future audit work programme for 2022-23 and beyond. In particular, it considers topics that may be taken forward through my national value for money examinations and studies and/or through local audit work across multiple NHS, central government and local government bodies. As I develop and deliver my future work programme, I will be putting into practice key themes in my new five-year strategy, namely:
- the delivery of a strategic, dynamic, and high-quality audit programme; supported by
  - a targeted and impactful approach to communicating and influencing.
- 25 The possible areas of focus for future audit work that I set out in the consultation were framed in the context of three key themes from my [Picture of Public Services](#) analysis in autumn 2021, namely: a changing world; the ongoing pandemic; and transforming service delivery. I also invited views on possible areas for follow-up work.
- 26 I will provide updates on the performance audit programme through my regular updates to the Governance and Audit Committee.

## Certification of grant claims and returns

- 27 I have also been requested to undertake certification work on Council's grant claims, which I anticipate will include Housing Benefits, Teachers Pension, NDR and pooled budget returns.

## Statutory audit functions

- 28 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.
- 29 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

- 30 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the signed financial statements submitted for audit are provided by the agreed date, and to the quality standard expected (having 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 access is 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.
- 31 I will be liaising with the Head of Internal Audit to establish the extent of the work undertaken for 2021-22 and its impact on my audit approach.
- 32 If I do receive questions or objections that require substantive audit work, I will discuss potential audit fees at the time.

## Fee

- 33 As set out in my Fee Scheme 2022-23, my fee rates for 2022-23 have increased by 3.7% as a result of the need to continually invest in audit quality and in response to increasing cost pressures. The previous increase to our fee rates was in 2016. The estimated fee for 2022 is set out in **Exhibit 3**, alongside the previous year's actual fees. The estimated cost of this year's audits represents a 0.5% increase.

### Exhibit 3: audit fee

Audit area	Proposed fee (£) <sup>2</sup>	Actual fee last year (£)
Main financial audit work <sup>3</sup>	243,060	249,500 <sup>4</sup>
Performance audit work <sup>5</sup>	108,136	104,700
Grant certification work <sup>6</sup>	42,700	41,257
Other financial audit work <sup>7</sup>	3,400	-
<b>Total fee</b>	<b>397,296</b>	<b>395,457</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.
- 35 Further information can be found in my [Fee Scheme 2022-23](#).

<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 2021 to October 2022.

<sup>4</sup> The audit of the 2021-22 Whole of Government Accounts has been delayed by HM Treasury and the National Audit Office. I expect to undertake the audit in late 2022. This figure includes an estimated audit cost of £3,000.

<sup>5</sup> Payable April 2022 to March 2023.

<sup>6</sup> Payable once the audits have concluded.

<sup>7</sup> This cost relates to the Blackwood Arts Centre. The previous year's fee is shown as nil because it is included in the £249,500. For 2022 it is shown separately and will be payable separately.

## Audit team

36 The main members of my team, together with their contact details, are summarised in **Exhibit 4**.

### Exhibit 4: my audit team

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

Name	Role	Contact number	E-mail address
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>
Timothy Buckle	Audit Manager (Performance Audit)	029 2032 0653	<a href="mailto:timothy.buckle@audit.wales">timothy.buckle@audit.wales</a>
Rhodri Davies	Audit Lead (Financial Audit)	029 2032 0637	<a href="mailto:rhodri.davies@audit.wales">rhodri.davies@audit.wales</a>
Bethan Roberts	Audit Lead (Performance Audit)	02920 829366	<a href="mailto:bethan.roberts@audit.wales">bethan.roberts@audit.wales</a>
Harrie Clemens	Senior Auditor (Financial Audit)	02920 320500	<a href="mailto:angharad.clemens@audit.wales">angharad.clemens@audit.wales</a>

37 There are two potential conflicts of interest that I need to bring to your attention, both of which relate to Harrie Clemens. Harrie's mother is one of the Council's headteachers. Also, since October 2021 Harrie has been a school governor at Coed-Brain Primary School. I have adjusted the team's working arrangements where necessary, to address the risk of a conflict arising.

38 I am not aware of any other potential conflicts of interest that I need to bring to your attention.

## Timetable

- 39 The key milestones for the work set out in this plan are shown in **Exhibit 5**.
- 40 The Public Audit (Wales) Act 2004 provides electors with the right to ask questions and to make objections to the Council's financial statements to the Auditor General. The rights to ask questions and make objections at audit are linked to electors' rights to inspect the financial statements, which are also set out in the 2004 Act.

### Exhibit 5: Audit timetable

Planned output	Work undertaken	Report finalised
2022 Audit Plan	February to April 2022	April 2022
<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 October <sup>8</sup> 2022	October 2022  October 2022  December 2022
<b>Performance audit work:</b> <ul style="list-style-type: none"> <li>• Assurance and Risk Assessment project</li> <li>• Thematic Review – unscheduled care</li> <li>• Thematic Review [tbc]</li> <li>• Local risk-based projects – Waste Management</li> </ul>	Timescales for individual projects will be discussed with the Council and detailed within the specific project briefings produced for each piece of work.	

<sup>8</sup> The Section 151 Officer has confirmed that he will provide us with the signed draft statement of accounts (with the narrative report and annual governance statement) on 30 June 2022.



Planned output	Work undertaken	Report finalised
<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>	November 2022 to January 2023	Separate reports for each grant, with various deadlines.
<b>Other financial audit work</b> <ul style="list-style-type: none"> <li>• Blackwood Arts Centre (charity account)</li> <li>• Whole of Government Accounts returns (2020-21 and 2021-22)</li> </ul>	November 2022  To be determined <sup>9</sup>	Audit opinion by January 2023  To be determined
<b>Annual Audit Summary</b>	N/A	December 2022 (subject to the completion and closure of the audit of the financial statements)

<sup>9</sup> Pending instructions from HM Treasury and the National Audit Office.







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